Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary_st@leg.wa.gov

September 27, 2005

10:00 am - 1:00 pm

House Hearing Room A
Olympia

AGENDA

10:00 AM	**(1)**	**Approval of Minutes**
10:10 AM	**(2)**	**USERRA Compliance Update** - Department of Retirement Systems
10:30 AM	**(3)**	**Judges Benefit Multiplier** - Bob Baker, Senior Research Analyst
11:00 AM	**(4)**	**Service Credit Purchases** Laura Harper, Senior Research Analyst - Legal
11:30 AM	**(5)**	**PSERS Eligibility** Department of Retirement Systems
NOON	**(6)**	**LEOFF 1 Benefit Cap** - Bob Baker
12:30 PM	**(7)**	**Public Testimony**
1:00 PM	**(8)**	**Adjourn**

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Select Committee on Pension Policy

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FULL COMMITTEE
DRAFT MINUTES

August 23, 2005

The Select Committee on Pension Policy met in House Hearing Room A, Olympia, Washington on August 23, 2005.

Committee members attending:

Representative Fromhold, Chair
Elaine Banks
Representative Bailey
Lois Clement
Representative Conway
Representative Crouse
Senator Fraser
Leland Goeke
Robert Keller
Sandra J. Matheson
Corky Mattingly
Doug Miller
Victor Moore
Senator Mulliken
Glenn Olson
Senator Pridemore
Diane Rae
J. Pat Thompson
David Westberg

Representative Fromhold, Chair, called the meeting to order at 10:00 AM.

(1) Approval of Minutes

It was moved to approve the July 19, 2005 Draft Minutes. Seconded.

MOTION CARRIED

(2) SCPP Goals

Matt Smith, State Actuary, reviewed the "Goals for Washington State Public Pensions" report.

It was moved to approve the revised Goals for Washington State Public Pensions. Seconded.

MOTION CARRIED

(3) Gain-Sharing Subgroup Report

Representative Fromhold reported on the activities of the gain-sharing subgroup.

(4) Plan 1 Unfunded Liability - Options

Laura Harper, Senior Research Analyst - Legal, reviewed the "Plan 1 Unfunded Liability Options" report. Discussion followed and the Chair recommended that a Technical Subgroup be created and chaired by Victor Moore.

It was moved to approve the creation of a Technical Subgroup chaired by Victor Moore. Seconded.

MOTION CARRIED

(5) Disability Retirement

Bob Baker, Senior Research Analyst, reviewed the "Disability Retirement" report.

(6) TRS Out-of-State Service Credit

Laura Harper, Senior Research Analyst - Legal, reviewed the "TRS Out-of-State Service Credit" report.

(7) Age 70 ½ and Opt In/Opt Out

Bob Baker, Senior Research Analyst, reviewed the "Age 70 ½ and Opt In/Opt Out" report.

(8) Plan 3 Vesting

Laura Harper, Senior Research Analyst - Legal, reviewed the "Plan 3 Vesting" report.

The following people testified:
Randy Parr, Washington Education Association
John Kvamme, Washington Association of School Administrators/Association of Washington School Principals

The meeting adjourned at 12:40 PM.

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Select Committee on Pension Policy

Goals for Washington State Public Pensions

Adopted August 23, 2005

1. Contribution Rate Setting: To establish and maintain adequate, predictable and stable contribution rates, with equal cost-sharing by employers and employees in the Plans 2, so as to assure the long-term financial soundness of the retirement systems.

2. Balanced Long-Term Management: To manage the state retirement systems in such a way as to create stability, competitiveness, and adaptability in Washington's public pension plans, with responsiveness to human resource policies for recruiting and retaining a quality public workforce.

3. Retirement Eligibility: To establish a normal retirement age for members currently in the Plans 2/3 of PERS, SERS, and TRS that balances employer and employee needs, affordability, flexibility, and the value of the retirement benefit over time.

4. Purchasing Power: To increase and maintain the purchasing power of retiree benefits in the Plans 1 of PERS and TRS, to the extent feasible, while providing long-term benefit security to retirees.

5. Consistency with the Statutory Goals within the Actuarial Funding Chapter: To be consistent with the goals outlined in the RCW 41.45.010:

    a. to provide a dependable and systematic process for funding the benefits to members and retirees of the Washington State Retirement Systems;
    b. to continue to fully fund the retirement system plans 2 and 3, and the Washington State Patrol Retirement System, as provided by law;
    c. to fully amortize the total costs of PERS 1, TRS 1 and LEOFF 1, not later than June 30, 2024;
    d. to establish predictable long-term employer contribution rates which will remain a relatively predictable portion of future state budgets; and
    e. to fund, to the extent feasible, benefit increases over the working lives of those members so that the cost of those benefits are paid by the taxpayers who receive the benefit of those members' service.

Subgroup Membership

(September 14, 2005)

Gain-Sharing Subgroup
SCPP and voting members:
Representative Bill Fromhold (chair)
Senator Karen Fraser
Senator Joyce Mulliken
Representative Larry Crouse
Elaine Banks
Lee Goeke
Sandra J. Matheson
J. Pat Thompson

Non-SCPP and non-voting members:

Sophia Byrd
Cassandra de la Rosa
Jim Justin
Ken Kanikeberg
John Kvamme
Christopher Liu
Lynn Maier
Leslie Main
Ellie Menzies
Randy Parr
Wendy Rader-Konofalski

Public Safety Subgroup
SCPP and voting members:
Representative Steve Conway (chair)
Senator Craig Pridemore
Vacant senate position
Representative Barbara Bailey
Lois Clement
Bob Keller
Sandra J. Matheson
Glenn Olson

Public Safety Subgroup *Continued*
Non-SCPP and non-voting members:
Captain Jeffrey Devere
Rick Jensen
Mr. Bob Maki
Paul Neal

Plan 1 Unfunded Liability Technical Subgroup
SCPP and voting members:
Victor Moore (chair)
Senator Craig Pridemore
Representative Barbara Bailey
Glenn Olson

Select Committee on Pension Policy

2005 Meeting Schedule

(August 24, 2005)

June 20, 2005
10:00 AM - 6:30 PM
Senate Hearing Room 1
Orientation

June 21, 2005
9:30 AM - 12:30 PM
Senate Hearing Room 4

July 19, 2005
10:00 AM - 1:30 PM
House Hearing Room A

August 23, 2005
10:00 AM - 1:30 PM
House Hearing Room A

September 27, 2005
10:00 AM - 1:30 PM
House Hearing Room A

October 18, 2005
10:00 AM - 1:30 PM
House Hearing Room A

November 15, 2005
House Hearing Room A

December 13, 2005
House Hearing Room A

USERRA Compliance

(July 12, 2005)

Issue

The issue before the Executive Committee is whether retirement system plan provisions should be reviewed for compliance with the federal Uniformed Services Employment and Re-employment Rights Act (USERRA, which governs interruptive military service.

Staff

Laura C. Harper, Senior Research Analyst/Legal
(360) 786-6145

Members Impacted

This issue could affect members of all systems and plans.

Current Situation

Interruptive military service is governed by federal law. At a minimum, public employers must provide the protections specified in USERRA. USERRA was signed into law in 1994, with amendments made in 1996, 1998 and 2000 and 2004. Also, the Department of Labor has published proposed regulations to help explain USERRA. For employers, the fundamental requirement of USERRA as it relates to retirement plan benefits is to provide for recovery of the benefits that a re-employed participant did not receive due to qualifying military service.

Analysis

Federal USERRA law preempts state law, however USERRA does not diminish any employment benefit that is more generous than the rights provided under the Act. Because of federal preemption, DRS will not deny a benefit that is available under the federal law, even if it is not mentioned in the state statutes. DRS does, however, train its staff based on state law. Thus, it could be useful to employers and members to bring state law into consistency with federal law. Examples of some of the areas of current state law that may need review include:

- definitions of conflicts
- definitions of veteran
- pay-back period for contributions
- time limits on service.

The Department of Retirement Systems generally takes the lead on compliance issues. The SCPP generally recommends pension legislation to the legislature at large.

Next Steps

USERRA compliance is an issue that could be handled in a technical corrections bill. DRS could investigate the issue and identify any areas of concern that would require legislative action. The OSA could provide bill-drafting assistance and the SCPP could provide any needed policy input and ultimately, sponsorship of a bill. It is up to the Executive Committee to decide whether to schedule this item for further consideration during this interim.

USERRA Compliance Update

Select Committee on Pension Policy
Prepared by:
Department of Retirement Systems

September 27, 2005

Purpose of Review

The SCPP requested a review of state pension laws to ensure compliance with the Federal Uniformed Services Employment and Reemployment Rights Act (USERRA).

Background

- Since 1940, federal laws have included reemployment rights for employees who leave to perform military service.
- U.S. Supreme Court: "This legislation is to be liberally construed for the benefit of those who left private life to serve their country in its hour of great need . . ."

USERRA Pension Rights

"A person reemployed under this chapter shall be treated as not having incurred a break in service with the employer or employers maintaining the plan by reason of such person's period or periods of service in the uniformed services."
38 USC Sec. 4318

Washington State Provisions

- Washington's pension plans vary in regard to military leaves of absence
- In some cases, state laws are more generous than federal laws require
- Members will be granted the most generous pension rights provided by either federal or state laws

USERRA Supersedes State Law

- Administrative procedures ensure members' rights where state law is more restrictive than USERRA
- Some technical corrections may be appropriate to eliminate inconsistencies in state law

Example: Five Year Service Limit

- Washington state plans limit military service credit to five years
- USERRA grants several exceptions to the five year limit
- DRS would allow the member to acquire all service credits covered by USERRA
- Technical correction

Example: Average Compensation

- Several plans specifically exclude leaves of absence from average final pay calculation for determining retirement benefit
- When appropriate, DRS includes military service period in average final pay calculation as required by USERRA
- Technical correction

Example: Reemployment

- Several plans require the member to apply for reemployment with the same pre-service employer
- DRS allows military service credits following reemployment with any participating employer, in compliance with USERRA for multiemployer plan
- Technical correction

Example: Payment Period

- Several plans allow purchased military service credit, with payment in full within five years or prior to retirement, whichever comes first
- USERRA allows three times the length of service up to five years, and is silent in regard to retirement impacting the repayment period
- DRS would extend the payment period
- Technical correction

Summary

- Administrative procedures are being reviewed and clarified to ensure consistent application in compliance with USERRA
- Technical corrections would eliminate discrepancies that exist in state laws

Judges Benefit Multiplier

Select Committee on Pension Policy
September 27, 2005

Robert Wm. Baker
Senior Research Analyst

State Judges Retirement Benefits

Supreme Court, Court of Appeals, and Superior Court Judges

- Public Employee's Retirement System.
- Judges Retirement Account (JRA)
  - Matching 2.5 percent contributions.
  - A supplemental Defined Contribution (DC) plan.

Judges Benefit Proposal

- Increase multiplier from 2 percent to 3.5 percent prospectively.
- Eliminate the JRA
- Use JRA contributions to fund improved multiplier.
  - Does not include district and municipal court judges.

Judges in Washington State

Supreme Court	9
Court of Appeals	22
Superior Court	179
District Court	110
Municipal Court	120

Judges Plan History

- Judges Retirement plan (1937-1971).
- Judicial Retirement System (1971-1988).
- Maximum 75 percent of pay
  - 21½ years of service.
- Pay-as-you-go
  - Member contribution: 6.5 percent - 7.5 percent.
  - State contribution: 40 percent.

JCPP Recommendations 1987

- Close JRS to new members.
- New Judges into PERS 2
  - Cost sharing
  - Pre funded
- Judges Retirement Account (JRA) for state judges.
- Member and employer contributions: 7.5 percent.

Judges Plan Membership

- July 1, 1988 – New judges become PERS 2 members.
- March 1, 2002 – New judges become PERS 2 or PERS 3 members.

Judges Characteristics

- Enter at age 40.
- Salaries set by Washington Citizens Commission on Salaries for Elected Officials
  - 2004 : $124,411
  - 2005 : $128,143
  - 2006 : $131,988

Judges Retirement Example

Age	65
Years of service	25
Benefit ratio	50%
AFC (monthly)	$9,502
Base benefit	$4,751
JRA accumulations	$276,928
Annuitized JRA	$2,084
Total benefit	$6,835
% of AFC	71.9%
Equivalent DB accrual	2.88%

Comparative States

System	Multiplier
CalPERS	3.75%
Colorado PERA	2.5%
Florida FRS	3.33%
Idaho	5% 1-10 yrs, 2.5% 10+ yrs
Iowa	3.0%
Minnesota	3.2%
Missouri	2.5%, 3.33%, 4.17%
Ohio	2.2% to 30yrs, 2.5% over 30yrs
Oregon	3.75% 1-16 yrs, 2.0% 16+ yrs
Wisconsin	2.0%

Comparative Plan Incentives

- High multipliers typically encourage shorter service.
- Low multipliers typically encourage longer service.
  - Interaction with maximum benefit caps.

Judges Retirement Policy

- Inferred in statute.
- Judicial service warrants greater benefits.
- Longer service encouraged.

Policy Questions

- Is a combination DB/DC the best retirement plan design for mid-career hires? What about late-career hires?
- In light of judges' higher compensation, is a higher multiplier necessary for adequate retirement benefit?

Policy Questions

- Are there recruitment issues that would be resolved by modifying Judges' retirement benefits?

Benefit Questions

- Does the committee want to include the Supreme Court and Court of Appeals judges in this proposal, as they also receive the JRA?
- Include District and Municipal court judges?

Benefit Questions

Does the committee want to include PERS 1 judges, in addition to PERS 2/3 judges in any proposal?

Benefit Questions

Does the committee want to establish an option for members to purchase past service credit?

Benefit Questions

If the committee decided to change the plan design to consolidate the existing DB/DC elements, should the benefits be of equal value to existing PERS and JRA plans, or should the benefits increase?

Option 1

Eliminate the JRA and create a Superior Court judges benefit that allows PERS 2 members to accrue a 3.5 percent per year DB prospective to a max of 75 percent of AFC and PERS 3 members to accrue a 1.75 percent per year DB to a maximum of 37.5 percent of AFC.

Option 1 Fiscal Impact

The 2.50 percent JRA contribution would make up most of the cost, but would require an additional 0.72 percent of pay from both the employer and Plan 2 members.

- $100,000 in 2005-07
- 8.7 million over 25 years

Option 2

Eliminate the JRA and create a Superior Court judges benefit that allows members to accrue a DB of 3.15 percent per year of service - the combined value of the existing PERS and JRA benefits - to a max of 75 percent of AFC for Plan 2 members and 37.5 percent of AFC for Plan 3 members.

Option 2 Fiscal Impact

The 2.50 percent JRA contribution would be added to normal cost contribution rates to pay for the equivalent increase in the DB accrual. This requires no new member or employer contributions.

Option 3

- Include all District and Municipal Court judges in any proposal.
- Fiscal impact not available at this time.

Option 4

- Keep the existing JRA benefit and retain existing multiplier.
- No fiscal impact.

Next Steps

The Executive Committee will choose whether the full committee should forward a proposal.

Judges Benefit Multiplier

(September 12, 2005)

Issue

Judges employed by Washington State after June 30, 1998, – Supreme Court, Court of Appeals, and Superior Court judges – are members of the Public Employees Retirement System (PERS). They also receive an additional retirement benefit called the Judges Retirement Account (JRA). This is a Defined Contribution (DC) account into which members and the state each contribute 2.5 percent of pay. Upon retirement, state employed judges receive their PERS benefits plus distributions from their JRA accounts.

Proposal

The Superior Court Judges Association has asked the SCPP to review the current benefit formula. The Association is proposing to raise the benefit formula to 3.5 percent per year to a maximum benefit of 75 percent of pay. The Judges Association also proposes that the benefit improvement be in lieu of the current JRA benefit received by Superior Court judges, thereby financing the benefit within existing resources. The Superior Court judges are the only judges making this request.

Staff

Robert Wm. Baker, Senior Research Analyst
(360) 786-6144

Members Impacted

This proposal would effect all members of PERS serving as Superior Court judges.

According to the Administrative Office of the Courts, there are nine Supreme Court judges, 22 Court of Appeals judges, 179 Superior Court judges, 110 District Court judges, and 120 Municipal Court judges in Washington State.

Current Situation

Since July 1, 1988, newly elected or appointed judges have become members of the PERS Plan 2. Since March 1, 2002, newly elected or appointed judges have had the choice to enter either PERS 2 or PERS 3.

A Plan 2 member is eligible for an unreduced retirement benefit at age 65 with at least five years of service; the member's benefit would be 2 percent of their Average Final Compensation (AFC) times their years of service.

A Plan 3 member would be eligible for an unreduced retirement benefit at age 65 with at least ten years of service (or five years if 12 months of service credit is earned after age 54); their benefit would be 1 percent of their AFC times their years of service plus the accumulations in their individual defined contribution account.

There is no cap on a PERS 2/3 Defined Benefit (DB).

In addition to a PERS benefit, state-employed judges are also eligible for a supplemental benefit from the JRA — a Defined Contribution (DC) plan. The supplemental retirement benefit was created when the earlier Judicial Retirement System was closed (June 30, 1988). This benefit was established under Chapter 109, Laws of 1988, and is found in Chapter 2.14 RCW (see Appendix A). The JRA is available to judges serving on the Supreme Court, Court of Appeals, and Superior Court.

To fund the JRA benefit, members and their employer (the state) each contribute 2.5 percent of pay. Those contributions are deposited into member accounts in the "Judicial Retirement Principal Account" within the State Treasury. Under the direction of the Administrator of the

Courts, this account may be deposited in select depository institutions, used to purchase life insurance or fixed or variable annuities, or as is done currently, invested by the State Investment Board.

Upon retirement, member judges are eligible for their PERS benefits, plus a JRA distribution. That distribution may be in the form of a lump-sum or other payment option as adopted by the Administrator for the Courts.

Plan History

Prior to the current PERS – JRA combination, judges were served by the Judges' Retirement Plan (1937 - 1971) and the Judicial Retirement System (1971 - 1988). Both plans offered a maximum benefit of 75 percent of final average salary that could be accrued after about 21½ years of service. The actual accrual rates differed for members with shorter service, but worked out almost the same for those who served long enough to accrue the maximum benefit (see Figure 1).

Figure 1
Service Retirement Formulas in the Judges and Judicial Retirement Plans

Judges	For members with 12 to 18 years of service: 50% of FAS × (Years of service ÷ 18) For members with more than 18 years of service: 50% of FAS + (1/18th of salary for each year over 18) to a maximum of 75% of FAS
Judicial	For members with more than 10 but less than 15 years of service: 3% of FAS per year of service For members with 15 or more years of service: 3.5% of FAS per year of service to a maximum of 75% of FAS

These plans were unusual in that they were funded on a pay-as-you-go basis. This made them inordinately expensive as there was no investment earnings to help defray the cost of the plans. While members' contributions were 7.5 percent of pay in the Judicial Plan and 6.5 percent of pay in the Judges Plan, the state contributions averaged over 40 percent of pay.

Based on recommendations of the Joint Committee on Pension Policy (JCPP), the Judicial Retirement System was closed to new members on June 30, 1988. New Superior Court, Court of Appeals, and Supreme Court judges would become members of PERS 2 and also contribute to the JRA. Because new judges became members of a cost-sharing, pre-funded plan, this lowered their cost and that of the state to about 7.5 percent of pay each, for a total of 15 percent of pay.

Member Characteristics

Based on current data, the average Superior Court judge was appointed at around 40 years of age. That would be considered a mid-career hire for an average PERS member. Superior Court judges are also highly paid relative to the PERS membership at large. Their salaries are set by the "Washington Citizens Commission on Salaries for Elected Officials." Superior Court judges annual salaries were set at $124,411 for fiscal year 2004, $128,143 for fiscal year 2005, and will increase to $131,988 in 2006.

Figure 2
Superior Court Judges Membership Demographics 9/30/03

	PERS 1	PERS 2	PERS 3
Active Members	51	102	7
Average Age	58.2	53.4	53.3
Average Years of Service	19.2	11.9	10.4

Example

An example of the defined retirement benefit earned by a Superior Court judge would be similar to that earned by a PERS 2 member in a typical civil service position – 2 percent per year of service times AFC. The difference in the retirement benefit rests in the DC accumulations in the JRA. Figure 3 shows an estimated accumulation in such an account and, if annuitized, what that would represent as a DB. This example assumes an entry age of 40 and retirement at age 65 after 25 years of service. While many judges serve beyond age 65, this is when the member is first eligible for an unreduced defined benefit.

Figure 3
Superior Court Judge
Plan 2 Member Retiring in 2004

Age	65
Years of Service	25
Benefit Ratio (2% × Years of Service)	50%
Average Final Compensation (monthly)	$9,502
Base Benefit	$4,751
JRA Accumulations	$276,928
Annuitized Accumulation (monthly)	$2,084
Total Monthly Benefit	$6,835
% of Average Final Compensation	71.9%
Equivalent DB Accrual Rate per Year	2.88%

In Figure 3, the member's DB is 50 percent of AFC – 2 percent times 25 years of service. With an AFC of $9,502, the base benefit, prior to payment options, is $4,751. Added to the DB is the annuitized JRA accumulations. The estimated accumulations are based on contributions of 5 percent of salary compounded at 8 percent interest (the actuarially assumed rate of return) for 25 years. When added to the DB, the annuitized JRA accumulations increase the total monthly benefit to $6,835. That represents 71.9 percent of the member's AFC and a benefit accrual rate equivalent to 2.88 percent per year of service. It should be noted that a lower long-term rate-of-return on the JRA account would result in lesser accumulations than in the above example.

Assets invested over the long-term are less susceptible to any single down market period. The risk in a DC design, as is the JRA, is the possibility of poor investment performance in the short term. Judges who accepted late-career appointments, say after age 50, would be more at risk of a Bear market impeding their JRA accumulations.

Other States

Among the comparative states used in this analysis, judges' retirement benefits are distinct from regular plan members. The principal consistencies among the comparative states' judges' retirement plans is that they tend to be DB plans and have relatively high benefit accrual rates – Ohio's plan is a DB plan, with a DC option. Beyond that, there are significant differences in benefit multipliers, AFC periods, and maximum benefits.

Figure 4
Select Judges Retirement Plan Provisions

	Benefit Multiplier	AFC Period	Maximum Benefit
CalPERS (Judges II)	3.75%	12 months	75%
Colorado PERA	2.5%	3 years	100%
Florida FRS	3.33%	5 fiscal years	100%
Idaho	5%, yrs 1-10 2.5%, yrs 10+	Current Annual	75%
Iowa	3.0%	3 years	60%
Minnesota[1]	3.2%	5 years	76.8%
Missouri	2.5%, 3.33%, 4.17%	Current Salary	50%
Ohio[2]	2.2% up to 30 yrs	3 highest yrs	100%
Oregon **A: Regular** **B: With Pro Tempore service**	**A:** 2.8125% yrs 1-16 1.67% yrs 16+ **B:** 3.75% yrs 1-16 2.0% yrs 16+	36 months	A: 65% B: 75%
Wisconsin	2000 - 2.0% Prior to 2000 - 2.165%	3 highest years	70% or more

1 *After 24 years, members contribute to the Unclassified Employees Retirement Plan.*

2 *Ohio judges (elected officials) may purchase service credit for two times the annual employee contribution rate.*

The benefit multiplier among the comparative states varies from 2.5 percent in Colorado to 4.17 percent in Missouri (see Figure 4). But those multipliers must be viewed in concert with the other elements of the plans, particularly the maximum benefit and participation in Social Security, for instance Ohio and Colorado members do not participate in Social Security. Missouri's high multiplier is only for those who are appointed at later ages and allows them to accrue a benefit equal to 50 percent of their final salary at age 62 after 12 years of service. Missouri's plan allows a member to receive a maximum benefit of 50 percent of final salary, the lowest of the comparative states. As a result, judges retirement policy in Missouri is considerably different than the policy in Colorado where judges are encouraged to serve longer and retire at later ages.

The AFC period among the plans varies widely as well. Idaho and Missouri use the current salary in the benefit formula and California uses the most recent 12 month salary. Minnesota and Florida use a five-year average. But, again, these design elements should be considered in light of the maximum benefit allowed under these plans. Minnesota and Florida allow members to accrue a benefit at a higher percent of AFC than Idaho, Missouri, or California.

Based on the comparative states, there is little consistency in the retirement plan design and policy for judges. Some plans encourage long service – some short. Some have high multipliers – some low. Some use the current salary to calculate benefits – some use up to five years of salary. The combination of PERS and JRA benefits appears to place Washington State in the middle of the pack in terms of retirement benefits for judges.

Policy

Retirement policy regarding judges employed by the state is inferred in statute. That policy is based on the principal that judicial service warrants a greater retirement benefit than the standard PERS allowance; this is accomplished through the JRA. This policy drove the benefit design in the earlier "Judges" and "Judicial" retirement systems. The accumulation dynamics of a DC account are such that, while not stated, longer membership is advantageous and thus encouraged.

Policy Questions

Is a combination DB/DC the best retirement plan design for mid-career hires? What about late-career hires?

In light of the higher compensation received by judges, is it necessary to have a higher multiplier in order for their retirement benefit to be adequate?

Are there recruitment issues that would be resolved by modifying judges retirement benefits?

Benefit Questions

Does the committee want to include the Supreme Court and Court of Appeals judges in this proposal, as they also receive the JRA?

Does the committee want to include PERS District and Municipal Court judges in any proposal, even though they do not currently receive the JRA?

Does the committee want to include include PERS 1 judges, in addition to PERS 2/3 judges in any proposal?

Does the committee want to establish an option for members to purchase past service?

If the committee decided to change the plan design for Superior Court judges so as to consolidate the existing DB and DC elements into a DB design, would it want this consolidation of benefits to be of equivalent value to the existing PERS and JRA plans, or would it want to increase the benefits?

Options

1. Eliminate the Judges Supplemental Retirement Account and create a Superior Court judges benefit that allows Plan 2 members to accrue a 3.5 percent per year DB to a maximum of 75 percent of AFC and Plan 3 members to accrue a 1.75 percent per year DB to a maximum of 37.5 percent of AFC. Plan 3 members would still be required to contribute 2.5 percent of pay they had formerly contributed to their JRA to either their PERS 3 member account (instead of a 5 percent minimum contribution it would be a 7.5 percent minimum contribution) or a DC account.

> *Fiscal Impact:* The current normal cost (not including gain-sharing) of the PERS 2/3 employer rate and the PERS 2 member rate is 4.35 percent of pay each. Those rates support the PERS 2/3 DB accruals. For the DB to accrue at 3.5 percent per year instead of 2.0 percent per year, the cost would increase on a near proportionate basis to 7.57 percent of pay each. The 2.50 percent JRA contribution would make up most of the cost, but the plan would require an additional 0.72 percent of pay from both the employer and Plan 2 members. This would have a General Fund State cost of $100,000 in 2005-07 and a 25 year cost of $8.7 million.

2. Eliminate the Judges Supplemental Retirement Account and create a Superior Court judges benefit that allows members to accrue a DB equal to the combined value of the existing PERS and JRA benefits to a maximum of 75 percent of AFC for Plan 2 members and 37.5 percent of AFC for Plan 3 members. This would be an estimated accrual rate of 3.15 percent per year of service for Plan 2 members and 1.575 percent for Plan 3 members. Plan 3 members would still be required to contribute 2.5 percent of pay they had formerly contributed to their JRA to either their PERS 3 member account (instead of a 5 percent minimum contribution it would be a 7.5 percent minimum contribution) or a DC account.

> *Fiscal Impact:* The current normal cost (not including gain-sharing) of the PERS 2/3 employer rate and the PERS 2 employee rate is 4.35 percent of pay each. Those rates support the PERS 2/3 DB accruals. The 2.50 percent JRA contribution would be added to the normal cost contribution rates to pay for the equivalent increase in the DB accrual. This would require no new member or employer contributions.

3. Include all judges in any benefit proposal, including district and municipal court judges.

Fiscal Impact: Not available at this time.

4. Keep the existing JRA benefit and retain existing multiplier.

Fiscal Impact: This would require no new member or employer contributions.

Stakeholder Input

Letter from Leonard Costello, Immediate Past President, Superior Court Judges Association (see Attachment).

Next Steps

The Executive Committee of the SCPP will chose whether the full committee should forward a proposal.

Chapter 2.14 RCW
RETIREMENT OF JUDGES—SUPPLEMENTAL RETIREMENT

Sections

2.14.010 Purpose. (1) The purpose of this chapter is to provide a supplemental retirement benefit to judges who are elected or appointed under chapter 2.04, 2.06, or 2.08 RCW and who are members of the public employees' retirement system for their service as a judge.

(2) This chapter may be known and cited as the judicial retirement account act. [1988 c 109 § 12.]

Effective date—1988 c 109: See note following RCW 2.10.030.

2.14.020 Definitions. The definitions in this section apply throughout this chapter.

(1) "Plan" means the judicial retirement account plan.

(2) "Principal account" means the judicial retirement principal account.

(3) "Member" means a judge participating in the judicial retirement account plan.

(4) "Administrative account" means the judicial retirement administrative account.

(5) "Accumulated contributions" means the total amount contributed to a member's account under RCW 2.14.090 (1) and (2), together with any interest and earnings that have been credited to the member's account. [1988 c 109 § 13.]

Effective date—1988 c 109: See note following RCW 2.10.030.

2.14.030 Judicial retirement account plan established. The judicial retirement account plan is established for judges appointed or elected under chapter 2.04, 2.06, or 2.08 RCW and who are members of the public employees' retirement system for their service as a judge. [1988 c 109 § 14.]

Effective date—1988 c 109: See note following RCW 2.10.030.

2.14.040 Administration of plan. The administrator for the courts, under the direction of the board for judicial administration, shall administer the plan. The administrator shall:

(1) Deposit or invest contributions to the plan consistent with RCW 2.14.080;

(2) Credit investment earnings or interest to individual judicial retirement accounts consistent with RCW 2.14.070;

(3) Keep or cause to be kept full and adequate accounts and records of the assets, obligations, transactions, and affairs of any judicial retirement accounts created under this chapter; and

(4) Adopt rules necessary to carry out this chapter. [1998 c 245 § 1; 1988 c 109 § 15.]

Effective date—1988 c 109: See note following RCW 2.10.030.

2.14.050 Administrator—Discharge of duties. The administrator for the courts shall be deemed to stand in a fiduciary relationship to the members participating in the plan and shall discharge his or her duties in good faith and with that diligence, care, and skill which ordinary prudent persons would exercise under similar circumstances in like positions. [1988 c 109 § 16.]

Effective date—1988 c 109: See note following RCW 2.10.030.

2.14.060 Judicial retirement principal account—Creation—Transfer of deficiencies—Contributions—Use. The judicial retirement principal account is created in the state treasury. Any deficiency in the judicial retirement administrative account caused by an excess of administrative expenses disbursed from that account over earnings of investments of balances credited to that account shall be transferred to that account from the principal account.

The contributions under *section 19 of this act shall be paid into the principal account and shall be sufficient to cover costs of administration and staffing in addition to such other amounts as determined by the administrator for the courts. The principal account shall be used to carry out the purposes of this chapter. [1988 c 109 § 17.]

***Reviser's note:** The reference to section 19 of this act appears to be incorrect. Section 20 of the act, codified as RCW 2.14.090, was apparently intended.

Effective date—1988 c 109: See note following RCW 2.10.030.

2.14.070 Judicial retirement administrative account—Creation—Use—Excess balance—Deficiencies. The judicial retirement administrative account is created in the state treasury. All expenses of the administrator for the courts under this chapter, including staffing and administrative expenses, shall be paid out of the administrative account. Any excess balance of this account over administrative expenses disbursed from this account shall be transferred to the principal account. Any deficiency in the administrative account caused by an excess of administrative expenses disbursed from this account over the excess balance of this account shall be transferred to this account from the principal account. [1991 sp.s. c 13 § 70; 1988 c 109 § 18.]

Effective dates—Severability—1991 sp.s. c 13: See notes following RCW 18.08.240.

Effective date—1988 c 109: See note following RCW 2.10.030.

2.14.080 Duties of administrator—Investments and earnings. (1) The administrator for the courts shall:

(a) Deposit or invest the contributions under RCW 2.14.090 in a credit union, savings and loan association, bank, or mutual savings bank;

(b) Purchase life insurance, shares of an investment company, or fixed and/or variable annuity contracts from any insurance company or investment company licensed to contract business in this state; or

(c) Invest in any of the class of investments described in RCW 43.84.150.

(2) The state investment board or the department of retirement systems, at the request of the administrator for the courts, may invest moneys in the principal account. Moneys invested by the investment board shall be invested in accordance with RCW 43.84.150. Moneys invested by the department of retirement systems shall be invested in accordance with applicable law. Except as provided in RCW 43.33A.160 or as necessary to pay a pro rata share of expenses incurred by the department of retirement systems, one hundred percent of all earnings from these investments, exclusive of investment income pursuant to RCW 43.84.080, shall accrue directly to the principal account. [1996 c 39 § 20; 1991 sp.s. c 13 § 103; 1989 c 139 § 3; 1988 c 109 § 19.]

Effective dates—1996 c 39: See note following RCW 41.32.010.

Effective dates—Severability—1991 sp.s. c 13: See notes following RCW 18.08.240.

Effective date—1988 c 109: See note following RCW 2.10.030.

2.14.090 Funding of plan—Contributions. The plan shall be funded as provided in this section.

(1) Two and one-half percent shall be deducted from each member's salary.

(2) The state, as employer, shall contribute an equal amount on a monthly basis.

(3) The contributions shall be collected by the administrator for the courts and deposited in the member's account within the principal account. [1988 c 109 § 20.]

Effective date—1988 c 109: See note following RCW 2.10.030.

2.14.100 Contributions—Distribution upon member's separation—Exemptions from state and local tax—Exempt from execution. (1) A member who separates from judicial service for any reason is entitled to receive a lump sum distribution of the member's accumulated contributions. The administrator for the courts may adopt rules establishing other payment options, in addition to lump sum distributions, if the other payment options conform to the requirements of the federal internal revenue code.

(2) The right of a person to receive a payment under this chapter and the moneys in the accounts created under this chapter are exempt from any state, county, municipal, or other local tax and are not subject to execution, garnishment, or any other process of law whatsoever. [1988 c 109 § 21.]

Effective date—1988 c 109: See note following RCW 2.10.030.

2.14.110 Payment of contributions upon member's death. If a member dies, the amount of the accumulated contributions standing to the member's credit at the time of the member's death shall be paid to the member's estate, or such person or persons, trust, or organization as the member has nominated by written designation duly executed and filed with the office of the administrator for the courts. If there is no such designated person or persons still living at the time of the member's death, the member's accumulated contributions shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation or, if there is no such surviving spouse, then to the member's legal representatives. [1996 c 42 § 1; 1988 c 109 § 22.]

Effective date—1988 c 109: See note following RCW 2.10.030.

WASHINGTON
COURTS

Superior Court Judges' Association

May 26, 2005

Senator Karen Fraser
Chair, Pension Policy Committee
Olympia, WA

Representative Steve Conway
Vice Chair, Pension Policy Committee
Olympia, WA

Dear Senator Fraser and Representative Conway

On behalf of the superior court judges in Washington State, I respectfully request the Pension Policy Committee review the current benefit formula for judges. Recent independent analysis shows that the benefits of the Washington State Superior Court Judges retirement plan ranks near the bottom of the fifty states. This alarming statistic is in sharp contrast to Washington's judicial reputation as one of the best in the United States.

The superior court judges request the committee consider an improvement to the plan that would increase the current two percent multiplier to three and a half percent for service earned; and set a maximum of 75 percent of pay for the entire benefit. As a possible offset to the increased cost to the state, the judges request the committee explore reducing the state's contribution to the judicial retirement account that is currently set at two and a half percent.

Most of Washington's superior court judges come to the position later in their careers because they want to serve the public good. Our objective in the review is to establish a retirement benefit formula that attracts the best and brightest from the legal community into Washington's judiciary.

Thank you,

Leonard W. Costello

Leonard Costello
Immediate Past President

cc: Matt Smith

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Service Credit Purchases

Select Committee on Pension Policy
September 27, 2005

Laura C. Harper
Senior Research Analyst/Legal

Issues Before the SCPP

1) Request from two former port commissioners for legislative change authorizing them to purchase service credit in PERS.

2) Proposal to expand provisions for purchasing "additional service credit" to apply to members qualifying for normal retirement.

Port Commissioners

- Elected members of the governing bodies of the ports.
- Compensated by the ports:
  - Annual per diem maximum of $8400,
  - Salary maximum of $500/month (for large ports like Seattle and Tacoma).
- Outside the Washington State Retirement Systems since 1975 .

Constituent Proposal

- Authorize PERS members to purchase service credit for time served as port commissioner. Would apply to:
  - Active members of PERS;
  - Those who became port commissioners on or after May 1, 1975; and
  - Those who served continuously as port commissioners until being elected or appointed to an eligible full or part-time position with another PERS employer.

Member Cost to Purchase

- Proposal is for members to pay "employer and employee contributions that would have been made for that person's additional service."
- Proposal does not mention interest.
- Proposal does not cover actuarial cost.
- No details provided regarding timing of purchase or payment.

Estimated Fiscal Impacts

- PERS 1 purchase – 17 years
  - $445,000 liability for benefit change
  - $260,000 offset for paid contributions
  - $185,000 net PERS 1 liability
  - 17 years for price of ten
- PERS 2 purchase – 8.5 years
  - $107,000 liability for benefit change
  - $75,000 offset for paid contributions
  - $32,000 net PERS 2/3 liability
  - 8.5 years for price of six

Benefit Questions

- How much service credit can be purchased ?
  - Use retirement system rules or authorize special rules?
  - Focus on years spent in the position (Plan 1 approach) or time actually worked (Plan 2/3 approach)?
- What would be the timing of these purchases and payments?

Policy Questions

- Narrow application or broad application reflecting shift in plan-wide retirement policy?
  - Narrow application may encourage further requests for similar treatment.
  - Broad approach may be costly.
- Who pays – the member, or the member and the retirement system at large?

Next Steps

- On August 23, 2005, the Executive Committee was briefed on this issue.
- Executive Committee voted to send the issue to the full SCPP to be heard.
- After today's hearing, the Executive Committee will decide whether or not to go forward with the proposal as presented, or with one or more modifications of the proposal.

Additional Service Credit

- "Additional service credit" refers to service credit that does not correspond to actual service of any kind.
- Used to increase member's retirement benefit.
  - May offset early retirement reductions.
  - May augment normal retirement pension.
- Also referred to as "air time."

Current Situation

- Additional service credit available in PERS, SERS, and TRS Plans 2/3.
- Only available to those who qualify for early or alternate early retirement.
- Member may make a one-time purchase of up to five years of service credit.
- Member pays actuarial cost.

Proposal

- Expand availability of this type of service credit purchase.
  - Allow those eligible for normal retirement to purchase.
  - Make available to all members of PERS, SERS, TRS, and PSERS.
- Expansion would be consistent with 2005 legislation affecting LEOFF 2.

Estimated Fiscal Impact

- None.
- Member pays actuarial cost.
- Benefit proposal not expected to change retirement behavior.
- Existing members currently have access to private sector providers that offer products with similar annuities.

Policy Implications

- Service credit cannot be used for retirement eligibility purposes, but can augment final retirement benefit.
  - Adds flexibility.
  - Promotes adequacy of benefit.
- Can be used in service-based plan or age-based plan; it does not alter plan policy with respect to appropriate retirement age.

Plan 1 Considerations

- Plan 1 benefit cap of 60 percent limits utility of this option for some members.
- This option increases Plan 1 purchasing power, as the Uniform increase amount would apply to the additional years of service (unless legislation excluded it).

Experience in Other States

- Less conventional, offered by less than a majority of public sector plans.
- Most public pension plans that offer "air time" require members to pay actuarial cost.
- Results of National Council on Teacher Retirement's national survey in 2004 are attached to the report in today's materials.

Next Steps

- August 23, 2005, the Executive Committee was briefed on this issue.
- Executive Committee voted to send the issue to the full SCPP.
- After today's hearing, the Executive Committee will decide whether or not to go forward with the proposal as presented, or with one or more modifications of the proposal.

Select Committee on Pension Policy

Service Credit Purchases

(September 14, 2005)

Issue

There are two issues before the SCPP that relate to the topic of service credit purchases. The first is a request from two individuals for a legislative change that would authorize them to purchase service credit in PERS for time spent as port commissioners outside the Washington State Retirement Systems.

The second issue has broader implications and would involve expanding retirement plan provisions allowing the purchase of additional service credit, also known as "air time" (due to the fact that it is not based on actual service of any kind). Under such expansion, members of PERS, TRS, SERS, and PSERS could purchase up to five years of additional service credit at normal retirement for the purpose of increasing their retirement benefit (as opposed to being limited to purchases made at early retirement to offset the applicable actuarial reduction). A similar provision was adopted for LEOFF 2 during the 2005 legislative session.

Staff

Laura C. Harper, Senior Research Analyst/Legal
360-786-6145

Members Impacted

The port commissioner proposal has been narrowly constructed to allow PERS service credit for two individuals, although there could be a minimal number of others that would fall within the proposed legislative exception.

Expanding the use of additional service credit could conceivably affect all retirement eligible members of PERS, TRS, SERS, and PSERS.

Issue No. 1: PERS Service Credit for Port Commissioners

Current Situation

Port commissioners are elected members of the governing bodies of the ports. Since 1975 they have been unable to have their compensation considered salary for any purpose of any Washington State retirement system. Hence, they do not receive retirement system service credit for their time as port commissioners.

Port commissioners receive their compensation directly from the ports. For example, the Port of Tacoma pays an annual per diem and a salary. Today the total per diem for Port of Tacoma Commissioners is $8,400 per year ($70 per day with a maximum of 120 days). Each commissioner working for a port with gross operating revenues of $25 million or more (such as the Port of Tacoma and Port of Seattle) receives a salary of $500 per month. Thus, the maximum compensation a Port of Tacoma Commissioner receives in a year is $14,400 (salary plus per diem).

History

Since the passage of a 1975 statute, port commissioners have been unable to join PERS or have their compensation considered salary for any purpose of any retirement system created under the laws of the state. When the 1975 statute was passed, a grandfather clause allowed existing port commissioners to elect to become members of PERS prior to May 1, 1975. Since that time, port commissioners have been on their own in terms of retirement benefits.

The ports themselves may make retirement plans and other benefits available to port commissioners if they so choose. For example, the Port of Tacoma makes its deferred compensation plan as well as its retirement health savings plan available to port commissioners. The Port of Tacoma does not, however, provide its commissioners with any employer contributions for these plans.

Proposal

Attached is a letter to Senator Karen Fraser dated November 11, 2004, from two individuals who are proposing a legislative change to the port commissioner statute that would allow them to purchase PERS service credit for their time as port commissioners. The proposal is narrowly constructed to apply to members with very fact-specific situations. The legislative amendment to the port commissioner statute would allow service credit purchases only for individuals who meet all of the following eligibility requirements:

- currently an active member of PERS;
- became a port commissioner on or after May 1, 1975; and
- served continuously as a port commissioner until being elected or appointed to an eligible full or part-time position with another PERS employer.

The cost these members propose to pay for the service credit is the "total amount of both the employer and employee contributions that would have been made for that person's additional such service." The proposal does not involve a payment for interest and the member's payment would be significantly less than the actuarial cost to the pension plan for the increase in the member's benefit.

The proposal is unclear as to whether normal retirement system rules would apply when determining how much service credit can be purchased for time spent as a port commissioner, or whether the rules for calculating service credit would be more like those applicable to some other types of elected officials. The examples and estimated fiscal impacts described below assume that full PERS service credit would be earned for each year of service as a port commissioner.

Examples with Estimated Fiscal Impacts

Member O'Malley, one of the proponents of the legislative change, is a member of PERS 1. Under the proposal, it is estimated that he would be eligible to purchase 17 years of service credit for a member cost of about $260,000 and a net cost to PERS 1 of about $185,000. In other words, Mr. O'Malley would be paying for a little less than 10 years of service credit and would receive 17 years of service credit.

Years Purchased by O'Malley	Increase in PERS 1 Liability for Benefit Change	Offset for Member's Contributions	Net PERS 1 Liability
17	$445,000	$260,000	$185,000

Member McCarthy, another proponent of the change, is a member of PERS 2. It is estimated that he would be eligible to purchase 8.5 years of service credit for a member cost of about $75,000 and a net cost to PERS 2/3 of about $32,000. Mr. McCarthy would be paying for about six years of service credit and would receive 8.5 years of service credit.

Years Purchased by McCarthy	Increase in PERS 2/3 Liability for Benefit Change	Offset for Member's Contributions	Net PERS 2/3 Liability
8.5	$107,000	$75,000	$32,000

Note: Compensation for past service was not available and would have been much lower than the members' current salary. Current salary is the salary on which the retirement benefit for the past service would be based. Also, in order to estimate the fiscal impact of this proposal, the members' current salary was used as a proxy for interest on the past contributions for the period of lost investment earnings.

Policy Analysis

As mentioned above, this proposal is narrowly crafted. The advantage of crafting this statutory exception narrowly is that it limits its cost. The disadvantage is the appearance that this is special interest legislation intended to benefit particular individuals instead of a benefit change based on a deliberate shift in plan-wide retirement policy. If the proposal were passed as currently crafted, it could lead to additional requests to expand the benefit.

Port Commissioners have been outside the Washington State Retirement System for thirty years (since 1975). However, if the port commissioner statute were to be amended to allow for PERS service credit for port commissioners, the type of PERS service credit purchase that would be most comparable to the current proposal would be the type that is currently available to locally elected officials.

In PERS Plan 1, an individual elected to local (or state) office that receives any compensation in a month earns one month of service credit. In PERS 2/3, locally elected officials who were not PERS members while serving in elected office and who later become active members in non-elected positions may purchase credit for elected service, but are subject to specific rules regarding service credit accrual depending on when their service occurred, how much they earned, and how much they worked. Also, PERS members must pay the required employee and employer contributions for the previous term or terms of elected service **with interest** as determined by the Department of Retirement

Systems (DRS).

It is unclear from the proposal how the specific rules applicable to service credit accrual would apply to member McCarthy, who is a PERS 2 member. If the SCPP were to agree with the legislative proposal in concept, it would be helpful to determine whether the proponents' intent is that affected individuals would be subject to existing DRS service credit accrual rules or whether special rules would be authorized and implemented to assure full service credit for all years served as port commissioners. Otherwise, there is a chance that Mr. McCarthy may not receive much service credit for his time as a port commissioner.

Stakeholder Input

The letter from the proponents to Senator Karen Fraser dated November 11, 2004, and its two attachments are included with this issue paper.

Executive Committee Recommendation

The Executive Committee recommended on August 23, 2005, that this issue be heard before the full SCPP. The decision before the Executive Committee at its next meeting is whether to propose legislation as requested by the proponents, or some modification thereof.

Issue No. 2: Expanding the Ability to Purchase Additional Service Credit

Current Situation

As of July 1, 2006, eligible members of the PERS, SERS, and TRS Plans 2/3 may, at the time of retirement, make a one-time purchase of up to five years of additional service credit. The service credit purchased would not need to correspond to any actual service within Washington, or any other retirement system, hence the term "additional service credit." The service credit is not membership service and cannot be used to qualify for retirement, but it can be used to increase early and alternate early retirement benefits by offsetting the required reductions for early retirement.

Under current law, only Plan 2/3 members who are eligible for early retirement or alternate early retirement may purchase additional service credit. The member pays the full actuarial cost of the service credit with a lump sum payment, eligible rollover, direct rollover, and/or trustee-to-trustee transfer from an eligible retirement plan at the time of retirement.

Currently the Plans 1 do not have provisions that authorize the purchase of additional service credit to offset early retirement reductions because there is no early retirement in the Plans 1. In the Plans 2/3, early retirement is available at age 55 with 20 years of service and alternate early retirement is available at age 55 with 30 years of service.

During the 2005 legislative session the LEOFF 2 Board's legislative proposal concerning additional service credit was successful. This bill differs from the provisions for the Plans 2/3 of PERS, SERS, and TRS in that up to five years of additional service credit is available to those eligible for normal retirement. The service credit purchased can be used to increase the member's benefits, but cannot be used for retirement eligibility. In other words, the member must already be eligible to retire in order to take advantage of this provision. The cost to the member is the actuarial equivalent value of the resulting increase in the member's benefit.

History

The ability to purchase additional service credit was added to the PERS and SERS Plans 2/3 during the 2004 legislative session as Chapter 172, Laws of 2004. The proposal was an outgrowth of the work of the public safety subcommittee that recommended the formation of the Public Safety Employees' Retirement System (PSERS), which becomes effective on July 1, 2006. This benefit was also given an effective date of July 1, 2006. It was intended to address those retirement system members who were not included in PSERS, but who might need to retire early due to stressful or dangerous jobs. Such individuals were thought to be members of either PERS or SERS. It was felt that these additional service credit provisions would provide a vehicle to, in effect, purchase a Plan 2/3 normal retirement when qualifying for early retirement.

The ability to purchase additional service credit was expanded to include the TRS Plans 2/3 by Chapter 65, Laws of 2005. The proposal was forwarded to the Legislature by the SCPP and created consistency with PERS and SERS 2/3. This bill also had an effective date of July 1, 2006. The LEOFF 2 Board's additional service credit purchase provision (which is described above) was implemented by the Legislature in Chapter 21, Laws of 2005 with an effective date of July 1, 2006.

Proposal

This proposal would expand the ability of members of PERS, SERS, TRS, and PSERS to purchase additional service credit as follows:

- Up to five years of additional service credit could be purchased at normal retirement to increase members' benefits.

- The service credit purchased would not be used for retirement eligibility.

- The member would pay the actuarial equivalent value of the resulting increase in the member's benefit.

- The cost of the service credit may be paid with a lump sum payment, eligible rollover, direct rollover, and/or trustee-to-trustee transfer from an eligible retirement plan at the time of retirement.

Estimated Fiscal Impact

There would be no fiscal impact from this proposal. The OSA assumes that this benefit proposal will not change future retirement behavior in the affected retirement systems. Existing members currently have access to private sector providers that offer products with similar annuities.

Policy Analysis

This proposal would be consistent with the LEOFF 2 legislation that passed in 2005. It would provide the opportunity for members of the various retirement systems to purchase a larger retirement benefit than they would otherwise receive, thus affording them additional flexibility for achieving their retirement goals. This option also promotes benefit adequacy throughout retirement by allowing members to, in effect, purchase a lifetime annuity while saving some of the costs associated with similar product offerings in the private sector.

Under this proposal, service credit cannot be used for retirement eligibility purposes. The service credit is purchased when the member already qualifies for normal retirement. Thus, the proposal does not alter plan policy with respect to when it is appropriate for members to retire. In that sense, this proposal can fit with a service-based plan design as seen in the Plans 1 as well as an age-based retirement plan design as found in the Plans 2/3.

It should be noted that there is no Plan 1/Plan 2-3 distinction in PSERS. In PSERS, normal retirement occurs when members reach age 65 with 5 years of service. Unreduced retirement occurs when members reach age 60 and 10 years of service and early retirement occurs when a member reaches age 53 with 20 years of service. Those retiring at age 53 are subject to 3 percent per year reduction in their benefit to reflect the difference between the number of years between age at retirement and the attainment of age 60. The provisions for additional service credit at early retirement were originally omitted for PSERS, as this plan already provided for unreduced retirement at age 60 with ten years of service. As stated above, allowing for the purchase of additional service credit at normal retirement would not alter the plan's policy with regard to when it is appropriate for members to retire. Thus, PSERS could be included within the scope of this particular proposal.

Because of the 60 percent benefit cap in the Plans 1, some Plan 1 members would not benefit from the ability to purchase this additional service credit. For example those Plan 1 members who have already accrued thirty years of service could not increase their final retirement benefit by purchasing additional service credit. Still, this provision could be useful to some Plan 1 members, as normal retirement occurs not only when members reach 30 years of service, but also when they have five years of service with attainment of age 60 or 25 years of service with attainment of age 55.

Plan 1 members who utilize this service credit purchase option would have a resulting increase in purchasing power, as the Uniform increase amount would apply to the additional years of service (unless the legislation excluded it). The additional cost associated with these cost-of-living adjustments would be included in the calculation of the member's actuarial cost.

Additional service credit or "air time" is a less conventional type of service credit, but is available for purchase in other states. The National Council on Teacher Retirement conducted a survey of air time practices in 2004, the results of which are attached at the end of this report. Most of the states allowing this type of service credit require that the member pay the actuarial cost of the increase in the member's benefit.

Executive Committee Recommendation

The Executive Committee recommended on August 23, 2005 that this issue be heard before the full SCPP. The decision before the Executive Committee at its next meeting is whether to propose legislation expanding opportunities for retirement system members of PERS, SERS, TRS, and PSERS to purchase additional service credit.

Air Time Survey Results

State	System Name	Does your plan permit participants to purchase air time?	If so, what limits or restrictions are in place regarding the amount of time that may be purchased?	What is the cost basis of purchasing air time?	Other comments	Website info
AK	Alaska PERS					
AK	Alaska Teachers					
AL	Alabama RSA	No				
AR	Arkansas Teachers					
AR	Arkansas PERS	No				
AR	Arkansas Highways	No				
AZ	Arizona SRS	No				
CA	CalPERS	Yes	Members may purchase up to five years.	Actuarial equivalent	Just began the air time service purchase program a few months ago.	
CA	CalSTRS	Yes	Members with at least 5 years of service can buy up to five years of service	The member pays the actuarial equivalent of the resulting benefit enhancement	From the CalSTRS website: Purchased air time does not count towards qualifying for career-based enhancements such as the career factor, the longevity bonus and highest single year final compensation.	http://www.calstrs.com/Calculators/nonqualcalculator.aspx
CO	Colorado PERA	No				
CO	Denver Schools	No				
CT	Connecticut SERS					
CT	Connecticut Teachers					
DC	District of Columbia RS	No				
DE	Delaware State Employees					
FL	Florida RS	No				
GA	Georgia ERS					
GA	Georgia Teachers	Yes	Member must have 25 years of creditable to qualify and may purchase up to 3 years of air time.	Full Actuarial Cost	Members should purchase other types of eligible service prior to purchasing air time. If other service is purchased after the purchase of air time, TRS will bill the member for any additional actuarial cost.	
HI	Hawaii ERS	No				
IA	Iowa PERS	No				
ID	Idaho PERS	Yes	Maximum of 48 months	The law requires that the full actuarial cost be paid for the service either by the employee or the employer may pay some or all of the cost.	We provide only air time.	http://www.persi.state.id.us/html/generalinformation/POS_brochure.htm
IL	Illinois Municipal					
IL	Illinois SERS					
IL	Illinois Teachers	No				
IL	Chicago Teachers					
IN	Indiana PERF					
IN	Indiana Teachers					
KS	Kansas PERS	No				
KS	Wichita RS					

Air Time Survey Results

State	System Name	Does your plan permit participants to purchase air time?	If so, what limits or restrictions are in place regarding the amount of time that may be purchased?	What is the cost basis of purchasing air time?	Other comments	Website info
KY	Kentucky RS	Yes	Employees who were participating in one of the retirement systems administered by the KRS before 7/15/02 may purchase up to 5 years of nonqualified service once they have 15 years of total service, including service in other state retirement systems. Of those 15 years, five years must be in a system administered by KRS. The nonqualified service may not be used for benefit purposes until the employee has attained 20 years of service, excluding the nonqualified service. An employee cannot purchase partial years of non-qualified service.	Full Actuarial Cost	Non-hazardous members eligible to purchase air time may use this time to vest towards the 25 year requirement for reduced service retirement benefits or the 27 year requirement for unreduced service retirement benefits and to meet eligibility requirements for the high-three final compensation window. To see how the cost is calculated, you may wish to view this link from our web site	http://www.kyret.com/publications/purchasecalculation.htm
KY	Kentucky Teachers	Yes	A limit of five years with twenty years of active service, purchasable at full-actuarial cost.	Full-actuarial cost. If they acquire it prior to retirement, they pay an estimated amount, with the final amount to be determined at the actual time of retirement. At that time the member may owe more to the System, or may be due a refund pending on the circumstances of that member at the time of retirement.	Due to the cost, we have only a few takers that purchase a year or more of time, but we do have a good number of members that may need only a fractional year of service to meet retirement conditions and therefore are willing to pay the cost of say .05 years of service.	
LA	Louisiana SERS	No			Legislation to allow air time is being considered in the legislature	
LA	Louisiana Teachers	No				
MA	Massachusetts SERS	No				
MA	Massachusetts Teachers	No				
MD	Maryland SRS	No				
ME	Maine SRS	No				
MI	Michigan Municipal	No				
MI	Michigan Public Schools	Yes	5 years	an actuarial percentage of the member's highest previous compensation, determined by the member's age and years of service	We call air time "Universal Buy-in"	http://www.michigan.gov/ors
MI	Michigan SERS	Yes	5 years	an actuarial percentage of the member's previous highest compensation and the percentage is based on the member's age	We call air time "Universal Buy-in"	http://www.michigan.gov/ors
MN	Minnesota State Employees	No				
MN	Minnesota Teachers	No				
MN	Minnesota PERA	No				
MN	Minneapolis Teachers					
MN	Duluth Teachers					
MN	Minneapolis ERF					
MN	St. Paul Teachers					
MO	Missouri State Employees	No				

State	System Name	Does your plan permit participants to purchase air time?	If so, what limits or restrictions are in place regarding the amount of time that may be purchased?	What is the cost basis of purchasing air time?	Other comments	Website info
MO	Missouri Schools	Yes	A member may purchase up to 5/10 of a year of credit. Must be within 5 years of being eligible to retire.	Pays both ee and er contributions for highest salary on record times number of tenths being purchased. (Example: Salary of $40,000. One-tenth salary ($4,000) x ee and er contribution rate (21%) = cost for one-tenth ($840).	Statute calls it “supplemental time”	
MO	Missouri Local	No				
MO	Missouri DOT and Highway Patrol	No				
MO	St. Louis School Employees	Yes	General rules: Must have at least 5 years continuous credited service and 1 year for each year purchased. Must also buy the entire amount of credited service for which eligible in a given category, i.e., substitute service, out-of-district service, refund service, etc.	With two exceptions, all of our service purchase provisions are at actuarial value. The exceptions are (a) in-district refund service where the member reimburses refunded contributions with interest, and (b) up to four-tenths of a year but only if needed to retire where the member pays both employee and employer contributions with interest.	Besides the four-tenths of a year (see response to previous question– which is a state-wide provision), the only other air-time we permit is up to five years during which a member was involuntarily laid-off, provided the member returned to full-time service and did not take a distribution of his/her previous contributions.	
MS	Mississippi PERS	No				
MT	Montana PERS	No				
MT	Montana Teachers	Yes	Vested members (5 years) may purchase 2 years of air time for a break in service provided they have 1 year of creditable service following the break.	Participants who became members after 7/1/89 pay the actuarial equivalent. All others pay, for each year purchased, the combined ee and er contribution rates in effect when they are first eligible to purchase the service, multiplied by their first full year's salary following the break, plus interest to the date of payment.	Participants may elect to purchase air time through tax deferred payroll deductions, i.e., employer pickup.	
NC	North Carolina RS					
ND	North Dakota PERS	Yes	upon becoming vested in our plan, we allow individuals to purchase up to 5 years of air/generic service credit.	Actuarial equivalent		
ND	North Dakota Teachers	Yes	member must be an active participant with five or more years of earned service credit. The maximum amount of air time purchase is five years.	Actuarial equivalent	Very popular	

Air Time Survey Results

State	System Name	Does your plan permit participants to purchase air time?	If so, what limits or restrictions are in place regarding the amount of time that may be purchased?	What is the cost basis of purchasing air time?	Other comments	Website info
NE	Omaha Schools	Yes	After a member is vested (5 years), that member may purchase up to 5 years of service credit, in 1/2 year increments.	Actuarial equivalent	Once begun, the member has 5 years to pay the cost of that purchase. They may have payments deducted on a pre-tax basis, they may pay with after tax dollars, or they may roll pre-tax funds from other retirement vehicles. The purchase may be accomplished in multiple individual purchases over the extent of their working years (ie a member could purchase 2 years and then later purchase 1 more year and then prior to retirement purchase another 2 years, so long as the total service purchased is 5 years or less)	
NE	Nebraska RS					
NH	New Hampshire RS	No				
NJ	New Jersey RS					
NM	New Mexico PERA	Yes	Our statute allows for purchases of monthly increments up to a maximum of one year.	full actuarial present value	To buy air time, the member must first be vested in the system. Also, the period of time purchased cannot be used in the determination of final average salary. The purchase of air time combined with the purchase of other permissive service credit cannot exceed a total of five (5) years	
NM	New Mexico Teachers	No				
NV	Nevada PERS	Yes	Up to five years	Full Actuarial Cost		
NY	NY SLRS	No				
NY	New York City Teachers					
NY	New York City ERS					
NY	New York State Teachers					
OH	Ohio PERS	No				
OH	Ohio School Employees	No				
OH	Ohio Teachers	No				
OK	Oklahoma PERS	No				
OK	Oklahoma Teachers	No				
OR	Oregon PERS					
PA	Pennsylvania State ERS					
PA	Pennsylvania School ERS	No				
RI	Rhode Island ERS	No				
SC	South Carolina RS	Yes	Active members with five or more years of earned service credit may establish up to five years of nonqualified service.	An active member may purchase up to 5 years of nonqualified service credit at a cost of thirty-five percent of the member's salary or career highest fiscal year salary, whichever is greater, for each year of credit purchased.	We refer to air time in statute as nonqualified service. Opinion-it has been well-received by our members. Nonqualified service has been utilized extensively by our members to realize retirement objectives and by agencies implementing retirement incentive programs.	
SD	South Dakota PERS					
TN	Tennessee CSRS	No				
TX	Texas Municipal	No				
TX	Texas ERS					

Air Time Survey Results

State	System Name	Does your plan permit participants to purchase air time?	If so, what limits or restrictions are in place regarding the amount of time that may be purchased?	What is the cost basis of purchasing air time?	Other comments	Website info
TX	Texas Teachers	Yes	Members with seven years of earned service credit may purchase one, two, or three years.	Actuarial equivalent		http://www.trs.state.tx.us/Benefits/ServiceCredit_PurchaseMainPg.htm
TX	Texas County & District	No				
UT	Utah RS					
VA	Virginia Retirement System					
VA	Fairfax County Schools	No				
VT	Vermont RS					
WA	Washington State RS					
WI	Wisconsin Retirement System	No				
WV	West Virginia PERS					
WY	Wyoming Public Employees					

November 11, 2004

Senator Karen Fraser
417 John A. Cherberg Building
PO Box 40422
Olympia, WA 98504-0422

Dear Senator Fraser,

Thanks for adjusting your schedule. John and I appreciate the opportunity to discuss an issue regarding pension service credits as port commissioners prior to our becoming judges. We are seeking membership credit in the Public Employees Retirement System for time served as port commissioners. We propose to fund both our contribution and the the employers contribution.

Attached please find a copy of current legislation relating to port commissioner compensation (RCW 53.12.260) and a proposed amendment drafted informally by Bob Hauth, attorney for the Washington Public Ports Association.

After serving as port commissioners, we have served continuously in other county or state positions as defined in RCW 41.40.010. If approved, we would pay into the appropriate retirement fund the total amount of employee contributions for the additional service. We are currently enrolled in the PERS program. We are not enrolled in the old Judicial Retirement System. There are several reasons supporting this request: port performance, fairness due to unusual demands, public commitment, and minimal costs.

The demands made upon us were unusual for two reasons: First the Port of Tacoma revolutionized the transportation industry by creating and implementing a business model and operational concept called on –dock intermodalism. We invested over $100 million dollars to bring trains directly into container yards. Previously containers were moved repeatedly and trucked to rail yards from the docks. Our business model was far more efficient, but it involved huge risk. As the concept was embraced by the shipping industry, Tacoma became the fastest growing port in North America during our terms as commissioners; its ranking leaped from twenty second place in North America to fifth place today.

The demands placed upon us at the time were far beyond historical norms of commissioners, because we were dealing in unproven operating concepts involving millions of dollars and the future of the port. Despite being in uncharted waters we had only a brief window of opportunity and we had to seize to and run with our advantage before others would catch us.

In addition to the urgency of capitalizing our innovation, we faced second challenge-personnel. Due to retirements and recruitments, we had three successive CEOs in eight years and significant senior staff turnover. Commissioners were required to provide continuity with customers and stakeholders in an environment of dynamic change. Overall it was a highly unusual time, but a critical one.

The results are evident today. For example in 1980 container volume was less than 100,000 TEU (twenty foot equivalent units); by 1992 over one million containers were moved. In 2004 over 1.7 million container moves are projected. The value of trade passing through Tacoma in 1983 was $4.5 billion dollars. In 1983 the value was $20 billion. The direct result was a spectacular leap in employment locally and a boon to the state's economy.

While meeting the daily demands of the port John served as President of the Washington Public Ports Association and Pat was an executive board member of the Washington Council on International Trade, the Japan American Society and a China Relations Council.

The emergence of the Port of Tacoma and its success is the product of many hands; however we certainly contributed to the success enjoyed today.

There are equitable reasons to consider our request as well. All of the Port Commission members that we served with during the 1980's decade of growth received pension service credits for their time as Commissioners. The proposed legislation is drafted narrowly. The potential impact to the retirement system is slight, as we believe there are only two candidates that would qualify for this service credit.
Our dedication to public service is unbroken. John was elected to the Port Commission in November 1983 and resigned his position to become a judge in May 1992. Pat was elected to the Port Commission in January 1980 and resigned in January 1997 upon being elected to the county council. In January 2003, Pat resigned from the council and was sworn in as a District Court Judge.

Currently we are members of the PERS system and remain committed to public service. However after twenty-five years of public service, Pat has only 9.5 years of retirement service. After twenty years of public service, John only has eleven years of retirement service credits.

We thank you for your consideration on this issue. We welcome any suggestion on how to proceed. Please contact us for any questions or additional information.

Sincerely,

John McCarthy
5703 Pinnacle Court NE.
Tacoma, WA 98422
925-2191

Pat O'Malley
7812 Olmpic View Dr.
Gig Harbor, WA 98335
857-5119

From: "Bob Hauth" <hauth@owensdavies.com>
To: <jmccart@co.pierce.wa.us>
Date: 5/22/02 9:41AM
Subject: Possible pension catchup

MEMORANDUM

TO: Hon. John McCarthy,

FROM: Bob Hauth

DATE:

RE: Possible pension catch-up

As requested, here is some suggested language for a possible amendment to RCW 53.12.260. I have not done any current in-depth research but hope this language will fit into the statutory pattern and be acceptable. Note that I have made some changes and added a little to what I described in our telephone conversation.

(added at the end of the section)

and PROVIDED FURTHER, That notwithstanding any other provisions of this section, a current active member of the Public Employees Retirement System who became a port commissioner on or after May 1, 1975 and served continuously in that position until being elected or appointed to an eligible full or part time position with another employer as defined in RCW 41.40.010 may obtain membership credit in the Public Employees Retirement System for such additional service as a port commissioner by applying for such credit and paying into the appropriate retirement fund created pursuant to chapter 41.50 RCW the total amount of both the employer and employee contributions that would have been made for that person's additional such service .

If you need assistance in presenting this amendment, I will try to recommend someone. I do wish you the best of luck, and hope to see you at the next WPPA conference or sooner.

Incidentally, in the upcoming WPPA FINANCE AND ADMINISTRATION seminar (June 19 at the Shilo Inn at Ocean Shores) there will be a presentation on "Retirement System Options" at 1:15 p.m. It might be an opportunity for you to explore this subject. You probably have received the announcement but if not I'm sure WPPA would be happy to send you one directly, or I will.

RCW 53.12.260
Compensation.

(1) Each commissioner of a port district shall receive seventy dollars per day or portion thereof spent (a) in actual attendance at official meetings of the port district commission, or (b) in performance of other service in behalf of the district. The total per diem compensation of a port commissioner shall not exceed six thousand seven hundred twenty dollars in a year, or eight thousand four hundred dollars in any year for a port district with gross operating income of twenty-five million or more in the preceding calendar year.

(2) Port commissioners shall receive additional compensation as follows: (a) Each commissioner of a port district with gross operating revenues of twenty-five million dollars or more in the preceding calendar year shall receive a salary of five hundred dollars per month; and (b) each commissioner of a port district with gross operating revenues of from one million dollars to less than twenty-five million dollars in the preceding calendar year shall receive a salary of two hundred dollars per month.

(3) In lieu of the compensation specified in this section, a port commission may set compensation to be paid to commissioners.

(4) For any commissioner who has not elected to become a member of public employees retirement system before May 1, 1975, the compensation provided pursuant to this section shall not be considered salary for purposes of the provisions of any retirement system created pursuant to the general laws of this state nor shall attendance at such meetings or other service on behalf of the district constitute service as defined in RCW 41.40.010(9): PROVIDED, That in the case of a port district when commissioners are receiving compensation and contributing to the public employees retirement system, these benefits shall continue in full force and effect notwithstanding the provisions of RCW 53.12.260 and 53.12.265.

[1998 c 121 § 3; 1992 c 146 § 12; 1985 c 330 § 3; 1975 1st ex.s. c 187 § 1.]

PSERS Membership Policy

Select Committee on Pension Policy

September 27, 2005

Robert Wm. Baker
Senior Research Analyst

Public Safety Employees Retirement System

- Chapter 242, Laws of 2004
- SCPP sponsored
- Effective July 1, 2006

PSERS 2 Retirement

- Age 65 with five years of service
- Age 60 with ten years of PSERS service
- Age 53 with 20 years of PSERS service
  - 3 percent early retirement reduction
- Disability retirement at any age
  - Actuarial reduction from age 60

SCPP Subgroup Deliberations

- Activity criteria
  - Intent section
- Statutory employer list
- Statutory occupational list
  - Derived from activity criteria

Criteria

- Law enforcement type duties
  - Not eligible for LEOFF
- High degree of physical risk
- Provide public protection of lives and property
- Authority and power to arrest

Criteria (cont)

- Conduct criminal investigations
- Enforce criminal laws
- Authority to carry a firearm
- Passage of civil service examination
- Completion of CJTC basic course

Statutory Employer List

- Department of Corrections
- Parks and Recreation Commission
- Gambling Commission
- Washington State Patrol
- Liquor Control Board
- County Corrections Departments
- City Corrections Departments
  - Not covered by First Class City plan

Statutory Job List

- City corrections officers
  - Jailers
  - Police support officers
  - Custody officers
  - Bailiffs
- County corrections officers
  - Jailers
  - Custody officers
  - Sheriffs corrections officers

Statutory Job List

- County probation officers
  - Probation counselors
  - Court services officers
- State correctional officers
  - Correctional sergeants
  - Community corrections officers
- Liquor enforcement officers
- Park rangers
- Commercial vehicle enforcement officers
- Gambling special agents

Pros and Cons - Criteria

- Pros
  - Very specific activities
  - Uniform – not arbitrary
  - No need to revisit if policy doesn't change
- Cons
  - Onus on employers and employees to petition for membership
  - Harder to administer – extensive WAC process

Pros and Cons - Statutory List

- Pros
  - Very specific job titles
  - Easy to administer – simple WAC process
    - If job is listed it's in, if it's not listed it's out
- Cons
  - Job titles may be different from place to place
    - May include those who don't satisfy original criteria
    - May not include all positions that satisfy criteria
  - Easier to change job titles than job duties
    - Change in title to either include or exclude from membership
  - Need for frequent statutory updates

PSERS Membership Policy

- Law enforcement related
- Not eligible for LEOFF
- Close to traditional definition of "Public Safety"

Policy Questions

- Does the SCPP wish to retain the law enforcement criteria for membership?
- If the Committee wants to expand membership, on what criteria or measure should that membership be based?

Policy Questions

- Does the SCPP want to consider an activity criteria rather than an occupational list or a should they consider a combination of both?

PSERS Eligibility Report
Department of Retirement Systems

PSERS Eligibility

Select Committee on Pension Policy

Prepared by:

Department of Retirement Systems

September 27, 2005

Eligibility Determination Summary

Current

- Employers are responsible for determining an employee's initial eligibility for PSERS based on guidance from DRS.
- PSERS eligibility is based on job classification as defined in statute.

Proposal

- Retain the job classifications in statute and marry that with the intended duties.

Eligibility Standard

Eligibility for PSERS is defined in statute as being:

…"any employee employed by an employer on a full-time, fully compensated basis within the following job classes in effect as of January 1, 2004:"

Eligible Classifications

- **City corrections officers**
  - Jailers
  - Police Support Officers
  - Custody Officers
  - Bailiffs
- **County corrections officers**
  - Jailers
  - Custody Officers
  - Sheriffs Corrections Officers
- **County probation officers**
  - Probation Counselors
  - Court Services Officers
- **State correctional officers**
  - Correctional Sergeants
  - Community Corrections Officers

Eligible Classifications (cont.)

- Liquor Enforcement Officers
- Park Rangers
- Commercial Vehicle Enforcement Officers
- Gambling Special Agents

Intent

- The intent section lists duties that describe PSERS work:
  - Law enforcement type duties
  - High degree of physical risk
  - Provide public protection of lives and property
  - Authority and power to arrest

Intent (cont.)

- Conduct criminal investigations
- Enforce criminal laws
- Authority to carry a firearm
- Passage of civil service examination
- Completion of the Washington Criminal Justice Training Commission (CJTC) basic course

Rule Making

- DRS can clarify statute through rule making process if the statutes are not clear.
  - The list of job classifications is specific.
  - The intent section specifies that:

  "only those job classes specifically included in RCW 41.37.010 (5) by the legislature are public safety employees"

Eligibility Issues

- Job classification based eligibility can include individuals who do not perform the intended duties.
- Duty based eligibility can exclude individuals in the job classifications that have been defined.
- Supervisory occupations are not included in the classification list. PSERS members moving into supervisory positions would be ineligible for continuing PSERS membership.

Job Classification Example

- One City indicated that of the position classifications listed in the statute (*Corrections Officers, Jailers, Police Support Officers, Custody Officers, and Bailiffs*) none are authorized to carry a weapon, have the power to arrest, conduct criminal investigations, complete a civil service examination, or Washington Criminal Justice Training Commission basic course.
- Their Corrections Officers do attend the four week CJT corrections course.

Duties Example

- One City indicated that their Court Security Officer was similar to a Bailiff with the same responsibility for the safety of all persons in the courtroom, including court personnel and the audience.
- The Court Security Officer carries a firearm and requires three years experience as a law enforcement officer or any equivalent combination of criminal justice training or experience.

Other Considerations

- Job classifications are subject to change by the employer or through bargaining.

Implementation

How will DRS implement the eligibility rules?

- Based on the current statute, employers will be instructed to determine eligibility based on the job classification.

What will be the outcome?

- Employees whose duties meet the intent will be excluded from PSERS.
- Employees whose duties do not meet the intent but are serving in the job classifications will be PSERS members.

Potential Remedies

- Add or exclude job classifications from the current list in statute.
- Identity the key duties and combine those together with the specific job classifications, requiring employees to meet both in order to qualify for PSERS.
- Make no changes.

PSERS Membership Eligibility

(September 13, 2005)

Issue

Legislation establishing the Public Safety Employees' Retirement System (PSERS) excluded certain occupational titles, particularly those with supervisory duties, and others who may meet the statutory criteria for membership.

Staff

Robert Wm. Baker, Senior Research Analyst
(360) 586-9237

Members Impacted

There are an estimated 7,200 PERS 2/3 members with public safety law enforcement responsibilities currently employed by the Washington State Department of corrections, the Washington State Department of Parks and Recreation, the Washington State Gambling Commission, the Washington State Patrol, the Washington State Liquor Control Board, county corrections departments, and city corrections departments not covered under first class city retirement plans chapter 41.28 RCW.

Background

The Public Safety Employees' Retirement System (PSERS) legislation was sponsored by the SCPP and was passed into law as Chapter 242, Laws of 2004. It will take effect on July 1, 2006. This plan was established to acknowledge the law enforcement nature of certain public employee occupations that do not meet all the statutory criteria for membership in the Law Enforcement Officers' and Fire Fighters' (LEOFF) retirement system.

These public safety employees are currently members of the Public Employees' Retirement System (PERS) and eligible to receive normal retirement after five years of service and attainment of age 65; in Plan 3, it is ten years of service and attainment of age 65. A Plan 2 member may receive an actuarially reduced early retirement after 20 years of service and attainment of age 55. A member with 30 years of service and age 55 may receive a benefit reduced 3 percent per year from age 65.

The PSERS benefit design includes:

- Regular retirement at age 65 with five years of service
- Unreduced retirement at age 60 with ten years of service in PSERS
- Three percent early retirement reduction factor (ERF) from age 60 if age 53 with at least 20 years of service.
- Disability early retirement with an actuarial equivalent ERF from age 60.

History

Numerous groups with some law enforcement authority have sought membership in the LEOFF retirement plans. A few of these groups have been successful. Recently, Emergency Medical Technicians and Fish and Wildlife enforcement officers have gained membership in LEOFF 2 as they met all statutory criteria for membership. Other groups who have sought membership in LEOFF do not meet these statutory criteria.

At the December 10, 2001, meeting of the Joint Committee on Pension Policy (JCPP), the committee passed a motion to study the issue of "... providing additional public safety benefits to certain members of the Public Employees' Retirement System plans 2 and 3...". The JCPP heard presentations and public testimony on this issue during the June and July 2002 interim hearings. The committee did not forward a recommendation to the full legislature.

In the 2003 interim, the SCPP formed the PERS Public Safety subgroup to study the issue and brought a recommendation to the executive committee of the SCPP. That recommendation, the establishment of the Public Safety Employees' Retirement System, was endorsed by the full committee, forwarded to the legislature, and passed into law as Chapter 242, Laws of 2004.

SCPP Deliberations

When deliberating on the question of who should be included in membership in PSERS, the SCPP deliberated over using an activity-based criteria or using a statutory list. The committee decided in favor of a statutory list. It was also decided that an activity criteria would be included in the intent section of the legislation.

The committee limited membership in PSERS to those jobs in which there were law enforcement characteristics and duties. Those characteristics, duties, and qualifications were outlined in RCW 41.37.005 and included:

- A high degree of physical risk to member's own personal safety;
- Providing public protection of lives and property;
- Authority and power to arrest;
- Conduct criminal investigations;
- Enforce the criminal laws of the state of Washington;
- Authority to carry a firearm as a part of the job;
- Passage of a civil service examination; and,
- Completion of the Washington Criminal Justice Training Commission (CJTC) basic course or equivalent.

While the above criteria for membership were in the intent section of the legislation, the statutory list of those eligible for membership in PSERS was placed in the definition section (RCW 41.37.010). The list includes city corrections officers, jailers, police support officers, custody officers, and bailiffs; county corrections officers, jailers, custody officers, and sheriffs corrections officers; county probation officers, probation counselors, and court services officers; state correctional officers, correctional sergeants, and community corrections officers; liquor enforcement officers; park rangers; commercial vehicle enforcement officers; and gambling special agents.

At the time of passage, it was acknowledged that the legislation probably excluded certain occupational titles, particularly those with supervisory duties, and others who may qualify for membership based on the activity criteria. Because of the delayed effective date, it was felt that there was time for those who wanted to be included in PSERS membership to contact the committee or their legislators for consideration.

Policy

In order for a public employee to be a law enforcement member of LEOFF they must:

- Be employed by a general authority law enforcement agency
- Be employed on a full-time fully compensated basis to enforce the criminal laws of the state of Washington,
- Pass a civil service examination,
- Meet specific medical and health standards, and
- Complete CJTC basic training.

While PSERS eligible employees meet some of these standards, they do not meet all of the standards. The SCPP has limited membership in PSERS to public employees who engage in law enforcement activities, are not eligible to be LEOFF members, but who most closely meet the traditional definition of "public safety."

Policy Questions

Does the Committee want to maintain the *law enforcement related* activity criteria for membership in PSERS?

If the Committee wants to expand membership, on what criteria or measure should that membership be based? Should it include supervisory positions?

Does the committee want to consider changing the membership provision from a statutory list to a criteria base? (Job titles may be easier to change administratively than actual job duties.)

Are there other provisions in PSERS the Committee wants to change?

Stakeholder Input

Charles Jones, Correctional Captain, Washington State Department of Corrections (see Attachment).
Lynn Maier, Governmental Relations Director, Washington Public Employees Association, UFCW Local 365 (see Attachment)
Dennis Trettel, Master Investigator, Snohomish County Medical Examiner's Office.

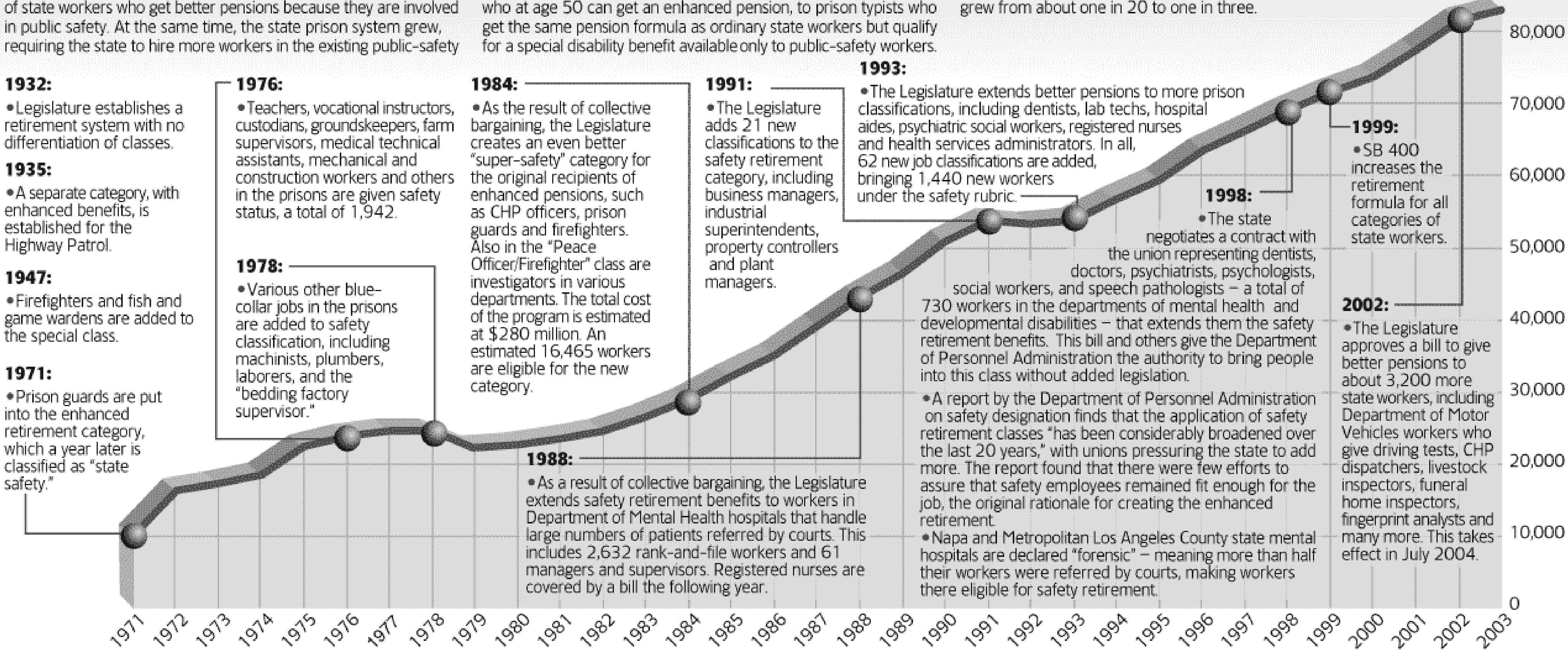
Executive Committee Recommendation

The Executive Committee of the SCPP recommended that this issue be heard by the full committee.

Enhanced retirement: A growing club

Starting in the 1970s, the state has greatly expanded the numbers of state workers who get better pensions because they are involved in public safety. At the same time, the state prison system grew, requiring the state to hire more workers in the existing public-safety categories. The categories include everyone from patrol officers, who at age 50 can get an enhanced pension, to prison typists who get the same pension formula as ordinary state workers but qualify for a special disability benefit available only to public-safety workers.

As a percentage of the state work force, the public-safety retirees grew from about one in 20 to one in three.



State retirement system classes

Miscellaneous, Tier 1 (such as transportation engineer, typist, program analyst):
- At age 55: Annual pension equal to 2 percent of salary multiplied by the number of years served, with no limit.
- Most pay 6.2 percent of their paycheck into the Social Security system and another 5 percent past a certain point to CalPERS.

Industrial, Tier 1(such as prison typist, prison records analyst, prison program analyst):
- At age 55: Annual pension equal to 2 percent of salary multiplied by the number of years served, with no limit.
- Most pay 6.2 percent of their paycheck into the Social Security system and another 5 percent past a certain point to CalPERS.
- Disability and special death benefits.

Safety (such as psychiatric technician in prisons and state hospitals, registered nurse in prisons and state hospitals, prison cooks):
- At age 55: Annual pension equal to 2.5 percent of salary multiplied by the number of years served, with a cap of 80 percent of final compensation.
- 6 percent of paycheck past a certain point to CalPERS.
- No Social Security payments
- Disability and special death benefits.

Peace Officer/Firefighter (such as correctional officer, parole agent, fire captain):
- At age 50 or 55 (most are scheduled to get it at 50): Annual pension equal to 3 percent of salary multiplied by the number of years served, with a cap of 90 percent of final compensation.
- 8 percent of paycheck past a certain point to CalPERS.
- No Social Security payments
- Disability and special death benefits.

California Highway Patrol (such as officers, sergeants, lieutenants):
- At age 50: Annual pension equal to 3 percent of salary multiplied by the number of years served, capped at 90 percent.
- 8 percent of paycheck past a certain point to CalPERS
- No Social Security payments
- Disability and special death benefits.

Other state jobs soon to get enhanced retirement status

On July 1, about 3,200 state workers will qualify for "safety" retirement, the latest to join a club that has more than tripled in the past 20 years. The original intent of the enhanced pensions was to encourage earlier retirement and guarantee that public safety workers were young and fit. Among the classifications to be added in July are:

- **Public safety dispatcher, CHP:** Gets reports of accidents and other incidents and transmits them to patrol officers; deals with other calls and operates communications equipment. (689 workers as of April)
- **Licensing-registration examiner:** Gives driver tests and deals with the public at DMV offices. (579 workers as of April)
- **Brand inspector:** Performs and supervises inspection of livestock for brands at stockyards, shipping points, ranches and slaughterhouses; oversees livestock transactions. Also helps in investigations of thefts and strays. (46 workers)
- **Managing deputy commissioner:** Plans operations and oversees work in the Department of Real Estate. (26 workers)
- **Measurement standards specialist:** Tests weighing and measuring devices to make sure they comply with laws and regulations. (20 workers)
- **Litigation specialist, California Department of Transportation:** Gathers information and conducts interviews in preparation for Caltrans lawsuits and hearings. (13 workers)
- **Photo-electronics specialist, Department of Justice:** Installs and maintains electronic and photographic equipment, and trains workers how to use surveillance devices. (4 workers)

Sources: Bee research

Sacramento Bee/Mitchell Brooks

Baker, Bob

From: Baker, Bob
Sent: Wednesday, May 26, 2004 2:20 PM
To: Fraser, Sen. Karen
Cc: Smith, Matt
Subject: FW: Pension Plans

Senator Fraser,

I contacted Mr. Charles Jones. He is a Correctional Captain employed by the Department of Corrections. He was concerned that Correctional Lieutenants and Captains were being excluded from the new Public Safety plan. I informed him that one of the reasons for the extended effective date of the PSERS plan was the recognition that some deserving occupational titles may have been missed and that the legislature would have time to amend the plan if necessary. He was also concerned about the 10 year vesting provision as he may be too old to make membership worth his while. I advised him to draft a letter to the Select Committee on Pension Policy stating his issues and that the State Actuary's Office would inform the committee of his concerns.

Bob Baker

-----Original Message-----
From: Smith, Matt
Sent: Tuesday, May 25, 2004 12:48 PM
To: Baker, Bob
Cc: Burkhart, Kelly
Subject: FW: Pension Plans

Bob, can you help with this? Kelly, please green sheet. Thanks.

-----Original Message-----
From: Fitzsimmons, Brenda
Sent: Tuesday, May 25, 2004 12:43 PM
To: Smith, Matt
Subject: FW: Pension Plans

Matt:
Could you please have someone on your staff contact Mr. Jones for Senator Fraser. Thanks

Brenda

-----Original Message-----
From: chazzjones99@comcast.net [mailto:chazzjones99@comcast.net]
Sent: Thursday, May 13, 2004 4:05 PM
To: Fraser, Sen. Karen
Subject: Pension Plans

SENATE INTERNET E-MAIL DELIVERY SERVICE

TO: Senator Karen Fraser

FROM:

Mr. Charles Jones
2847 Firland st. SW
Tumwater, WA 98512

E-MAIL: chazzjones99@comcast.net

PHONE: 360-570-0837

SUBJECT: Pension Plans

MESSAGE:

How do changes to the current state pension plan occur, If I am excluded from a new pension plan coming into effect in 2006. How can I effect changes. Do I need to take legal action or is there some other avenue or course of action I can take. Any information or direction would be greatly appreciated.

OTE: Mr. Jones has requested a response to this message.

NOTE: We are 99% sure that this constituent is in your district

WPEA

Washington Public Employees Association, UFCW Local 365

OLYMPIA HEADQUARTERS
140 Percival Street NW
P.O. Box 7159, Olympia, WA 98507
(360) 943-1121 1-800-544-WPEA
Fax: (360) 357-7627 wpea@wpea.org

EASTERN REGIONAL OFFICE
N. 4407 Division Street, Suite 514
Spokane, WA 99207
(509) 483-0288 1-877-734-WPEA
Fax: (509) 483-0264 wpeaeast@wpea.org

NORTHWEST REGIONAL OFFICE
18020 Aurora Avenue N., Suite 204
Shoreline, WA 98133
(206) 542-2690 1-877-901-WPEA
Fax: (206) 542-1735 lula@wpea.org

July 7, 2005

TO: Bob Baker
Office of the State Actuary

FROM: Lynn Maier
Governmental Relations Director

RE: WPEA Interest in Additional PSERS Inclusions

As we discussed earlier today, I have compiled the accompanying summary of job duties and qualifications for WPEA members working as DNR Natural Resource Investigators, Forest Crew Supervisors and WSP Deputy State Fire Marshals. As conveyed in my memo sent previously to SCPP members and State Actuary staff, WPEA would appreciate SCPP consideration of these classes for inclusion in PSERS this interim.

Thank you for your assistance in this matter. I look forward to working with you on this issue and others before the SCPP throughout the balance of the interim.

PSERS Membership Requirements and
WPEA Member Job Class Duties/Qualifications

Intent Language RCW 41.37.005 – Public Safety Employees Retirement System

PSERS members' job must contain a high degree of physical risk to their own persons.

Duties Involved:

- providing public protection of lives & property
- the authority & power to arrest & conduct investigations
- enforcing the criminal laws of the state
- authority to carry a firearm as part of the job

Qualification/training

- Passage of a civil service examination & completion of the WA Criminal Justice Training Commission (CJTC) basic course or an equivalent.

DNR Natural Resource Investigators **Total staff = 9**

Duties:

- Provide protection to DNR lands, employees and the public
- Conduct complex criminal & civil investigations
- Power to arrest, detain and initiate prosecution of violators
- Determine origin and cause of forest and other fires
- Conduct follow-up investigations for the Attorney General & County Prosecutor

Qualifications:

- Passage of a civil service examination & completion of the CJTC and advanced level fire investigations training or equivalent

DNR Forest Crew Supervisors **Total staff = 50**

Duties:

- Direct a crew of 5-10 or more individuals (inmates and/or Washington Conservation Corps Crews or seasonal workers) performing natural resource management activities, such as fighting grass, brush and forest fires, maintaining trails, roads and campgrounds, establishing and maintaining firebreaks, trails, planting trees and conducting pre-commercial forest thinning, tree planting, vegetation management and rehabilitating streams.

Qualifications:

- Experience as a DNR Forest Worker or forest fire fighter and/or experience as a supervisor of a crew performing outdoor physical labor and/or an A.A. degree in natural resource technology
- Ability to work on uneven terrain in extreme weather conditions for extended periods of time and successfully pass an annual work capacity test at the arduous level
- Valid driver's license without major restrictions
- Incumbents may be required to obtain specialized license regarding public pesticide application and intermediate or combination endorsements to driver's license
- Passage of a civil service exam

Deputy State Fire Marshal **Total staff = 19**

Duties:

- Develops/implements statewide fire programs addressing fire training, life safety inspections and fire investigations
- Works in cooperation with state, federal and local officials in public education, standards and accreditation and emergency mobilization of statewide structure fire resources
- Supports and strengthens grass roots efforts to prevent fire and emergency incidents and to control risk to life, property and community vitality that may result from destructive fire and emergency incidents.

Qualifications:

- Experience as a fire or police officer, codes enforcement officer, insurance industry inspector or investigator or emergency management coordinator
- College-level training in fire protection, police science, law enforcement or allied field
- Uniform Fire Code and Life Safety Code Certification must be obtained with 1st six months; Fire Instructor 1, Fire Investigator 1 and Fire Safety Evaluation System Certification must be obtained with 1st year of employment.
- Experience performing fire and life safety inspections and surveys of residential and health care facilities and/or transient accommodations, day care and group home facilities
- Passage of a civil service exam

RECEIVED

SEP 12 2005

Office of
The State Actuary

Date: August 26, 2005

To: Representative Bill Fromhold
239 JLOB
PO Box 40600
Olympia, WA 98504-0600

From: Dennis Trettel
5300 Glenwood Ave. unit A-1
Everett, WA 98203

RE: Public Safety Employees' Retirement System

Snohomish County
Medical Examiner's Office

Dennis Trettel, D-ABMDI
Master Investigator

D.TRETTEL@co.snohomish.wa.us

(425) 438-6200
FAX (425) 438-6222
9509 29th Ave., West
Everett, WA 98204

Representative Fromhold,

I am writing to you to request assistance for my job to be considered to be added to the Public Safety Employees' Retirement System. I work for Snohomish County as a Death Investigator for the Medical Examiners Office.

To keep things simple and short, my position as a Death Investigator is similar to any Police Detective with the exception of carrying a weapon and having a Law Enforcement Commission. As a Death Investigator, I do have Subpoena Authority and I take Custody of the Decedent. I interview (witnesses) and conduct scene investigations again like Police Detectives and provide police support. We (as death investigators) provide a service to the community 24/7 (and Holidays) and are required to staff our department as so.

I have included a CD-ROM disc (power point presentation) that gives the basics of what we do at the Medical Examiners Office.

What I am requesting, is that the job description of Medical Examiner/Coroner (and Investigators) be considered for admission to the PSERS. The Medical Examiner/Coroner is a large part of Public Safety with regards to the service we provide to the community, which is no different from the service people that have been allowed to join the PSERS.

I, again request any help you may be able to give to us (Medical Examiners/Coroners and Investigators), this is a hard enough job as it is and it would be good to know our service to the community would be recognized and appreciated.

I am available (and look forward) to explain our position further.

Thank you,

Dennis Trettel

The Washington State

Retirement OUTLOOK

For Active Members / PERS / TRS / SERS / LEOFF / WSPRS / Judges — July 2004

IN THIS ISSUE

2004 legislative update

Following is an overview of significant pension-related bills passed by the 2004 Washington State Legislature and signed by Governor Gary Locke.

Creation of Public Safety Employees' Retirement System

The Legislature created a new retirement system for public safety employees in specific job classes. Those eligible for membership include:

- City corrections, police support and custody officers; jailers and bailiffs
- County corrections and custody officers, sheriff's corrections officers and jailers
- County probation officers and probation counselors
- State correctional officers, sergeants and community corrections officers
- Liquor enforcement officers
- Park rangers
- Commercial vehicle enforcement officers
- Gambling special agents

The new system takes effect in 2006. Public safety employees enrolled in Public Employees' Retirement System (PERS) Plan 2 or Plan 3 on July 1, 2006 will have the choice of joining the new system or remaining in PERS. Those enrolled in PERS Plan 1 will remain in PERS. All public safety employees hired July 1, 2006 and after will become members of the new system.

Watch our Web site for more information on the Public Safety Employees' Retirement System in the coming months.

2004 legislative update continued on page 2

SNOHOMISH COUNTY MEDICAL EXAMINER'S OFFICE

Snohomish County
WASHINGTON

Norman Thiersch M.D.
Chief Medical Examiner

Katherine Raven M.D.
Associate Medical Examiner

Snohomish County
WASHINGTON

The primary purpose of the Snohomish County Medical Examiner's Office is to determine the cause and manner of death which are of concern to the public's health, safety and welfare.

The Medical Examiner is a physician and forensic pathologist who is authorized by state statute to investigate sudden, unexpected, violent, suspicious or unnatural deaths of persons who die within the geographical boundaries of Snohomish County.

Snohomish County
WASHINGTON

An accurate determination of the cause and manner of death is essential to achieve our goals:

- The innocent shall be exonerated
- Homicide shall be recognized
- Criminal and civil court proceedings will be provided with documented, sound, and impartial medical evidence
- Unrecognized hazards to public health and safety shall be revealed
- Industrial hazards should be exposed

INVESTIGATIONS

- Leon Reichle   Chief Medical Investigator
- Dennis Trettel   Master Investigator
- D.K. Carman   Medical Investigator
- Arleigh Marquis   Medical Investigator
- Shannon Impett   Medical Investigator

Snohomish County WASHINGTON

The medical investigators in our office have advanced training in forensic death investigation including witness interviews, accident reconstruction, evidence collection and fingerprinting.

Investigators secure and evaluate hospital and office records and perform profiles necessary in suicide determinations.

Snohomish County
WASHINGTON

The investigators have a knowledge of ballistics and ammunition and their effects on the human body. They determine time of death based on techniques such as cooling patterns and insect life cycles.

The investigative staff maintains continuing education in forensic sciences by regularly attending seminars and lectures and staying current with the latest literature in the field. They may also be called to testify in the courtroom.

Snohomish County
WASHINGTON

When a death under our jurisdiction is reported to the Medical Examiner's office, an investigation surrounding the death is initiated.

The investigation may be done by phone or the medical investigator may travel to investigate the death scene and determine if the body should be brought back to our facility for further examination.

Snohomish County
WASHINGTON

Our investigation may include interviewing family and friends of the decedent as well as witnesses, law enforcement and health care providers.

A thorough investigation of the death scene may include collection and preservation of evidence to be examined by the crime lab.

Snohomish County
WASHINGTON

Photographs of the scene are taken and personal property on the body will be collected as well as necessary documentation to locate and notify the next of kin.

Any and all personal property that accompanies the decedent to the medical examiner's office will be released to the next-of-kin, unless such property is to be used as evidence in a criminal proceeding.

Snohomish County
WASHINGTON

During the investigation, the medical investigator will consult with the forensic pathologist on call and may request his presence at the scene.

A complete investigative report is then prepared and filed.

Pathology

Snohomish County
WASHINGTON

All Human remains regardless of their state of preservation will be handled with the dignity befitting what they represent.

When an autopsy examination is required by the Medical Examiner, the autopsy will be performed expeditiously and without delay and in such a manner so as not to disfigure the body in any way.

Snohomish County
WASHINGTON

The pathology staff of the medical examiners office consists of two full time forensic pathologists and one full time forensic pathology assistant.

The job of the pathologist is to certify the cause and manner of death based upon the information gathered at the scene, at the lab, and from both gross and microscopic examination at the autopsy

Snohomish County
WASHINGTON

- The forensic pathology assistant photographs the body as it comes into the morgue and again after the body has been undressed and cleaned.
- The body is examined for physical evidence like hairs and fibers, and swabs may be taken.
- The clothing and evidence is then logged and packaged.
- X-rays may also be taken.
- After the pathologist dictates the external examination, the body is opened and the organs removed.
- The individual organs are examined and weighed and sections are retained for microscopic evaluation.
- Every attempt will be made to externally reconstruct the body to its original condition. The organs are returned to the body and it is closed, cleaned, and wrapped to be sent to the mortuary.

Snohomish County
WASHINGTON

A positive identification is essential before the body is released from this office.

This is accomplished by visual, (usually photographic), fingerprints, or both body and dental x-ray comparison.

RCW 36.24.050

Power to summon witnesses -- Subpoenas

The coroner may issue subpoenas for witnesses returnable forthwith or at such time and place as the coroner may appoint, which may be served by any competent person.

The coroner must summon and examine as witnesses, on oath administered by the coroner, every person, who, in his or her opinion or that of any of the jury, has any knowledge of the facts.

RCW 36.24.010

To act as sheriff under certain conditions

The coroner shall perform the duties of the sheriff in all cases where the sheriff is interested or otherwise incapacitated from serving; and whenever the coroner acts as sheriff he shall possess the powers and perform all the duties of sheriff, and shall be liable on his official bond in like manner as the sheriff would be, and shall be entitled to the same fees as are allowed by law to the sheriff for similar services: PROVIDED, That nothing herein contained shall prevent the court from appointing a suitable person to discharge such duties, as provided by RCW 36.28.090

RCW 46.04.040

Authorized Emergency Vehicle

"Authorized emergency vehicle" means any vehicle of any fire department, police department, sheriff's office, coroner, prosecuting attorney, Washington state patrol, ambulance service, public or private, which need not be classified, registered or authorized by the state patrol, or any other vehicle authorized in writing by the state patrol

RCW 46.52.050

Coroner's reports to sheriff and state patrol

Every coroner or other official performing like functions shall on or before the tenth day of each month, report in writing to the sheriff of the county in which he holds office and to the chief of the Washington state patrol the death of any person within his jurisdiction during the preceding calendar month as a result of an accident involving any vehicle, together with the circumstances of such accident

RCW 68.50.010

Coroner's jurisdiction over remains

The jurisdiction of bodies of all deceased persons who come to their death suddenly when in apparent good health without medical attendance within the thirty-six hours preceding death;
or where the circumstances of death indicate death was caused by unnatural or unlawful means;
or where death occurs under suspicious circumstances;
or where a coroner's autopsy or post mortem or coroner's inquest is to be held;
or where death results from unknown or obscure causes,
or where death occurs within one year following an accident;
or where the death is caused by any violence whatsoever,

RCW 68.50.010

Coroner's jurisdiction over remains (Cont.)

or where death results from a known or suspected abortion; whether self-induced or otherwise;

where death apparently results from drowning, hanging, burns, electrocution, gunshot wounds, stabs or cuts, lightning, starvation, radiation, exposure, alcoholism, narcotics or other addictions,

tetanus, strangulations, suffocation or smothering;

or where death is due to premature birth or still birth; or where death is due to a violent contagious disease or suspected contagious disease which may be a public health hazard;

or where death results from alleged rape, carnal knowledge or sodomy, where death occurs in a jail or prison;

RCW 68.50.010

Coroner's jurisdiction over remains (cont.)

where a body is found dead or is not claimed by relatives or friends, is hereby vested in the county coroner, which bodies may be removed and placed in the morgue under such rules as are adopted by the coroner with the approval of the county commissioners, having jurisdiction, providing therein how the bodies shall be brought to and cared for at the morgue and held for the proper identification where necessary.

LEOFF 1 Benefit Cap

Select Committee on Pension Policy
September 27, 2005

Robert Wm. Baker
Senior Research Analyst

Initial July 19th Presentation

Follow up questions:

- Current and alternate funded ratios
- Profile of members
- Source of contributions/surplus
- Age qualifier for cap proposals

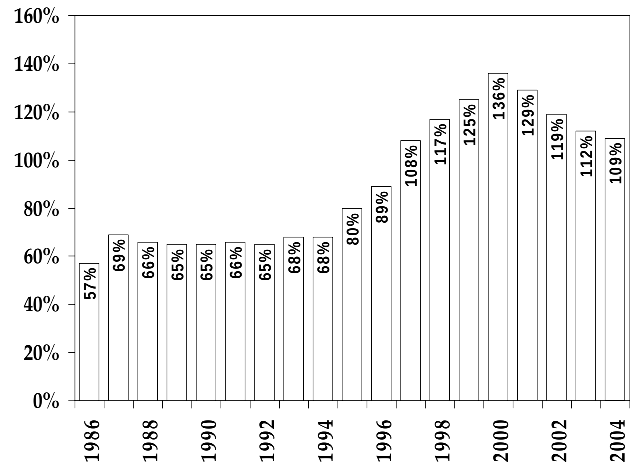
Proposal

Remove or raise the cap that limits LEOFF 1 members' maximum retirement benefit to 60 percent of final average salary.

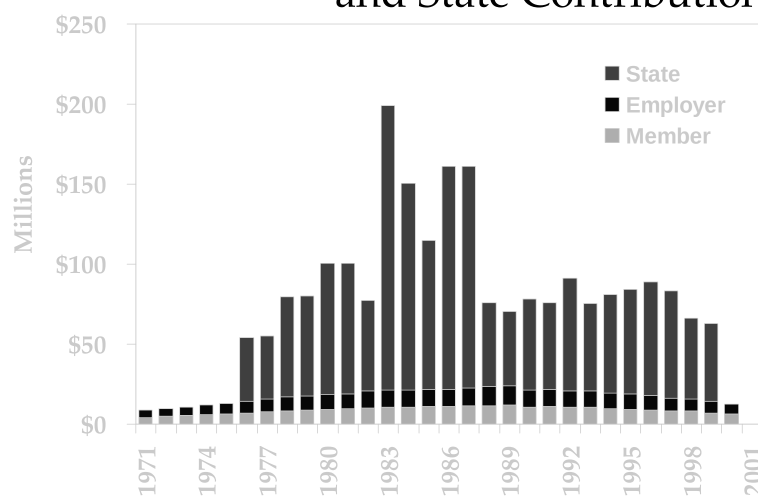
LEOFF 1 Benefit Cap

- Chapter 120, Laws of 1974
  - Established 60 percent cap
  - Effective date February 19, 1974
- 8,542 annuitants
  - 2,345 service retirees hired before 2/19/74
    - 717 had benefit greater than 60 percent of AFS

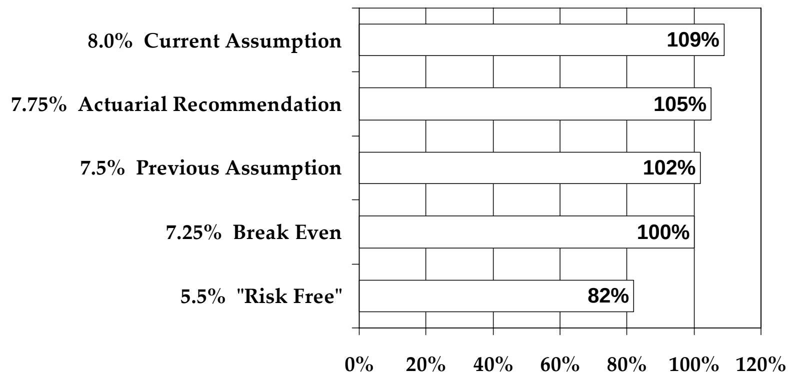
LEOFF 1 Funded Ratio



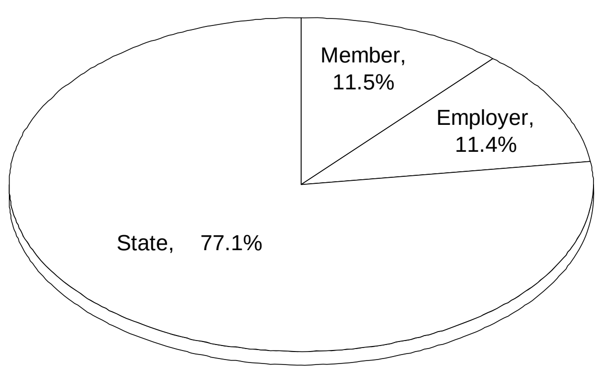
LEOFF 1 Member, Employer, and State Contributions



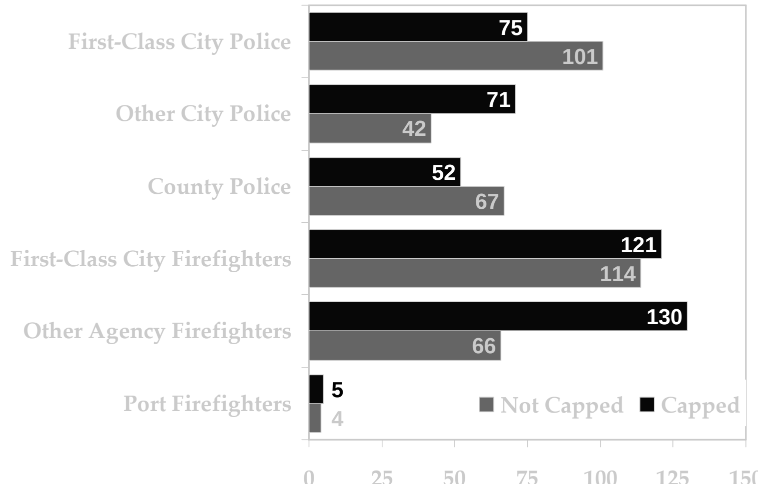
Funded Ratio
by Select Interest Rates



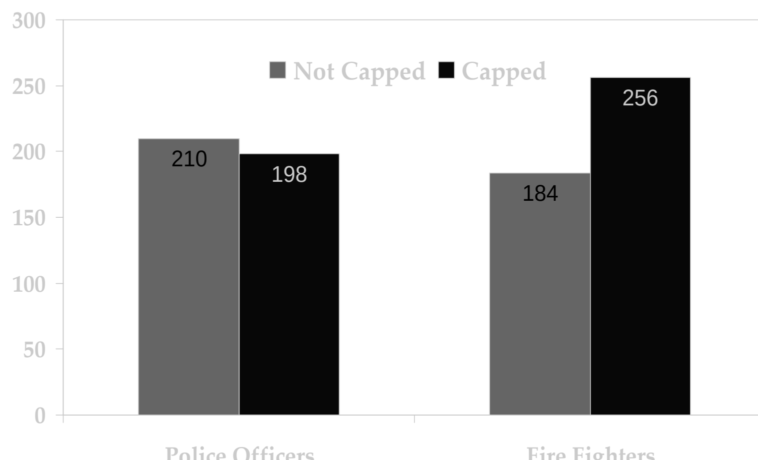
LEOFF 1 Contribution Source



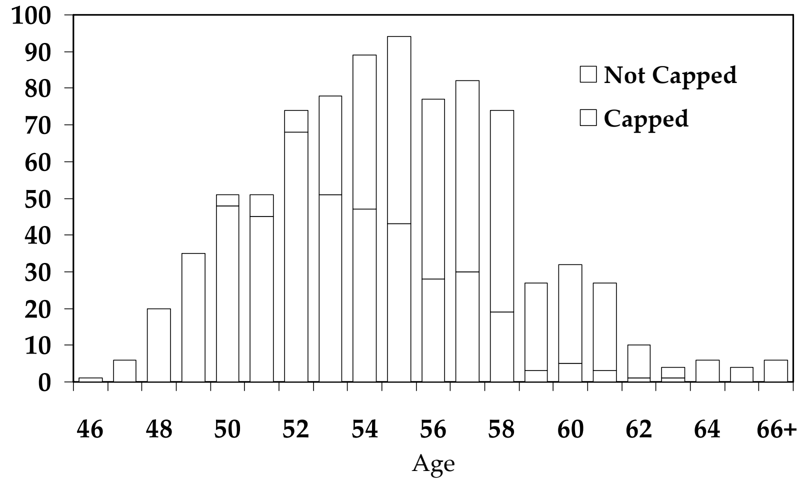
LEOFF Member Profile: Category



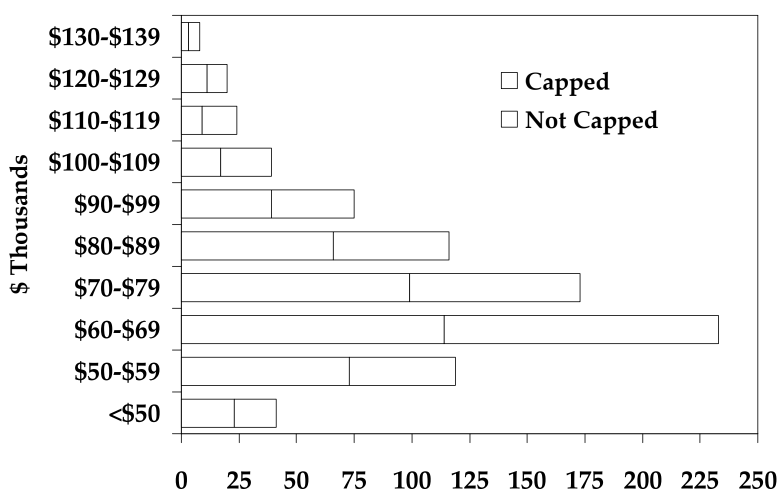
LEOFF Member Profile: Category



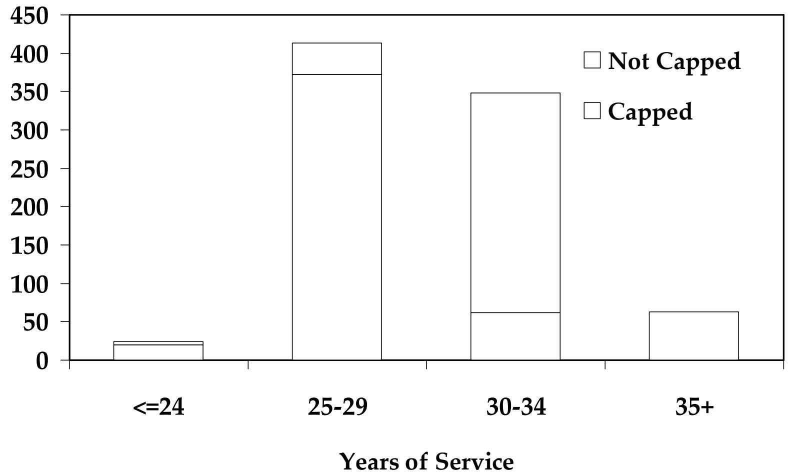
LEOFF Member Profile: Age



LEOFF Member Profile: Salary



LEOFF Member Profile: Service



Options and Fiscal Impact

Raise cap to 70 percent

- Increase plan liabilities by $17 million
- Increase in liability draws on surplus

Options and Fiscal Impact

Eliminate cap

- Increase plan liabilities by $19 million
- Increase in liability draws on surplus

Age Qualifier

- Set qualifier at age 60
  - Former mandatory retirement age
- Reduces liabilities of options by half
  - Remove cap: $11 million
  - 70 percent cap: $8.5 million

Next Step

Executive Committee will decide whether or not to bring a recommendation to the full committee.

LEOFF 1 Benefit Cap

(September 12, 2005)

Proposal

Representatives of active members of the Law Enforcement Officers' and Fire Fighters' Plan 1 (LEOFF 1) have proposed removing or raising the cap that limits members' maximum retirement benefit to 60 percent of Final Average Salary (FAS).

Staff

Robert Wm. Baker, Senior Research Analyst
(360) 586-9237

Members Impacted

As will be reported in the upcoming 2004 valuation, the LEOFF 1 plan had 848 active members and 8,542 annuitants as of September 30, 2004. Of these remaining active members, 454 are subject to the 60 percent benefit cap.

Current Situation

When first founded in 1971, LEOFF 1 had no benefit cap. With the passage of Chapter 120, Laws of 1974, members' benefits were capped at 60 percent of FAS. Those hired into LEOFF 1 positions on or after February 19, 1974, – the effective date of the act – are subject to the 60 percent cap. Those hired prior to that date are not subject to the cap.

Of the 8,542 LEOFF 1 annuitants counted in the 2004 actuarial valuation, 2,345 were service retirees who became members prior to February 19, 1974. Of those, 717 had a benefit that was greater than 60 percent of their FAS.

In addition to LEOFF 1 members hired on or after February 19, 1974, both the Public Employees' Retirement System (PERS) Plan 1 and the Teachers' Retirement System (TRS) Plan 1 have provisions capping retirement benefits at 60 percent of Average Final Compensation (AFC).

Unlike LEOFF 1, the benefit cap in PERS 1 and TRS 1 was part of the original plan design, not added later. The Washington State Patrol Retirement System also has a benefit cap, but at 75 percent of FAS instead of 60 percent.

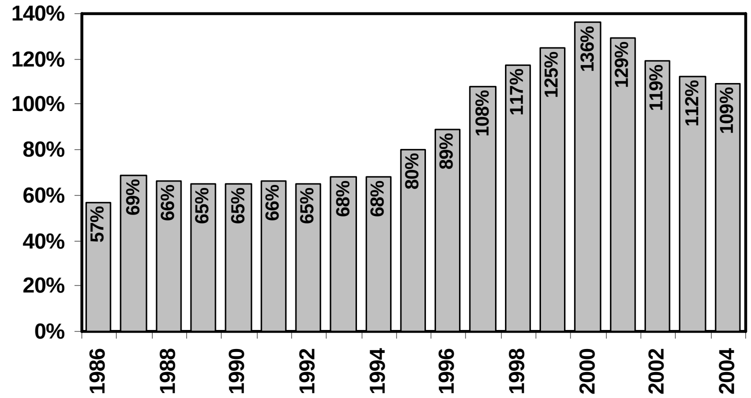
Unlike LEOFF 1, no LEOFF 2 members are subject to a benefit cap. LEOFF 2 uses a sixty month period for determining a member's FAS compared to the two year average in LEOFF 1; members are also required to be age 53 to receive an unreduced benefit compared to age 50 in LEOFF 1. Despite the differences in the Plan 1 and Plan 2 provisions, both are still age-based plans.

The remaining plans 2/3 also have no benefit cap and are age-based plans as opposed to the TRS 1 and PERS 1 designs, which are service-based. The School Employees' Retirement System (SERS), PERS, and TRS plans 2/3 require members to be age 65 in order to receive an unreduced defined benefit.

Surplus Status

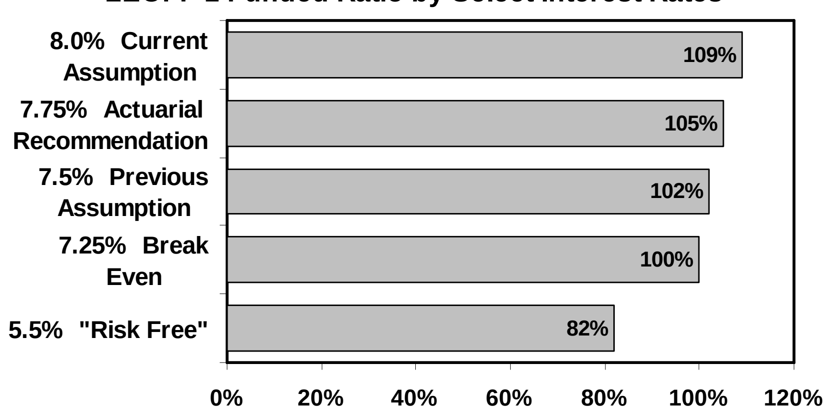
At the height of the previous investment cycle in 2000, the plan had a funded ratio of 136 percent (see Figure 1, below). At that point, the funding section of the chapter LEOFF 1 was amended to include the following provision: "No employer or member contribution is required after June 30, 2000, unless the most recent valuation study for Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 indicates the plan has unfunded liabilities." For the most recent valuation period, the funding ratio was 109 percent.

Figure 1
LEOFF 1 Funded Ratio: 1986 - 2004



As seen in the above illustration, a plan's funding ratio can be volatile. It is subject to the not only the vagaries of the investment markets, but also changes in the plan's economic assumptions as well. An example of this is the change in the assumed rate of return on plan assets; in 2000 the assumed rate of return was increased from 7.5 percent to 8.0 percent. By assuming a higher investment return on assets, fewer contributions are needed to cover its liabilities. Similarly, a given dollar amount of assets will represent a greater funding ratio under an 8.0 percent rate of return assumption than under a 7.5 percent rate of return assumption (see Figure 2).

Figure 2
LEOFF 1 Funded Ratio by Select Interest Rates

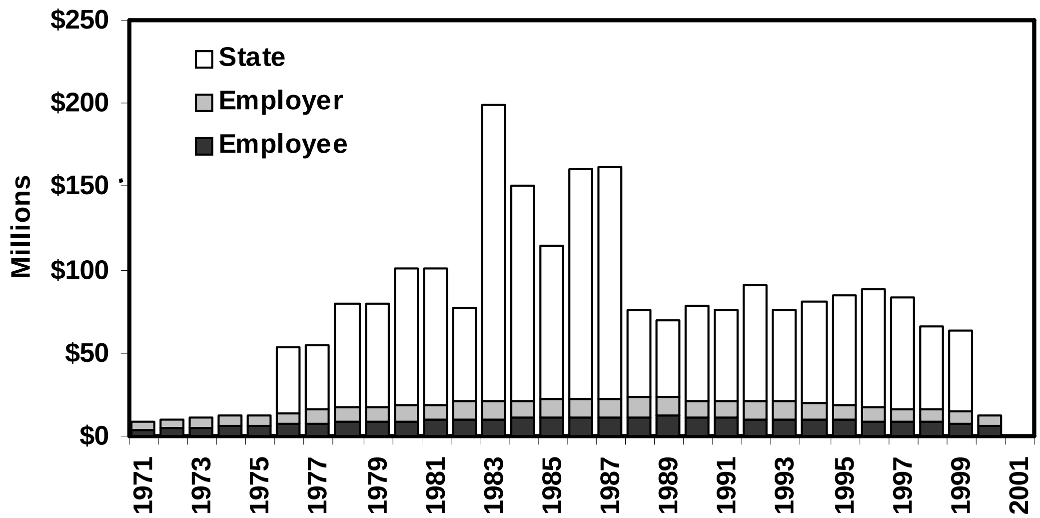


Contributions

When established on March 1, 1970, the LEOFF Plan 1 was to be funded through member, employer, and state contributions. The state's contribution was determined through the plan's first actuarial valuation performed by Milliman & Robertson, Inc. Consulting Actuaries. That valuation was completed on October 9, 1970. The report valued the current service liability of the system at 30.27 percent of salary and the unfunded liability for prior service at 14.89 percent of salary, for a total required contribution of 45.16 percent of salary. As the member and employer contributions were set in statute at 6.0 percent each, the state's contribution obligation in the first biennium was the remaining 33.16 percent of salary.

The state did not make contributions to LEOFF 1 in the first five years of its existence. But in the subsequent years, from 1976 through 1999, the state made the necessary appropriations and contributions (see Figure 3).

Figure 3
LEOFF 1 Member, Employer, and State Contributions



It is likely that the five-year delay in funding by the state resulted in a subsequently higher average contribution rate than the original recommendation. By the end of 2000, the state's contribution rate over the entire funding period averaged 40.4 percent of salary - over three-fourths of all the contributions to LEOFF 1 were state contributions (see Appendix A).

Active Member Profile

As will be reported in the 2004 valuation, the average age of the remaining active LEOFF 1 member is 54.8 years and their average member service is 30.2 years. For members to be eligible for retirement in LEOFF 1 they need to be 50 years of age with at least five years of service. As of the 2004 valuation, only 62 members were not retirement eligible, 12 of whom were not vested. The following sections provide some additional detail on active LEOFF 1 members.

> *Category:* The 848 active members are comprised of 408 police officers and 440 fire fighters. The majority of police officer active members are not subject to the benefit cap, while the majority of fire fighter active members are subject to the cap (see Figure 4). Among fire fighters, members from first-class cities represent the majority of active members; this is a departure from the police officer employer distribution and is likely a result of a greater use of volunteer fire fighters in rural areas.

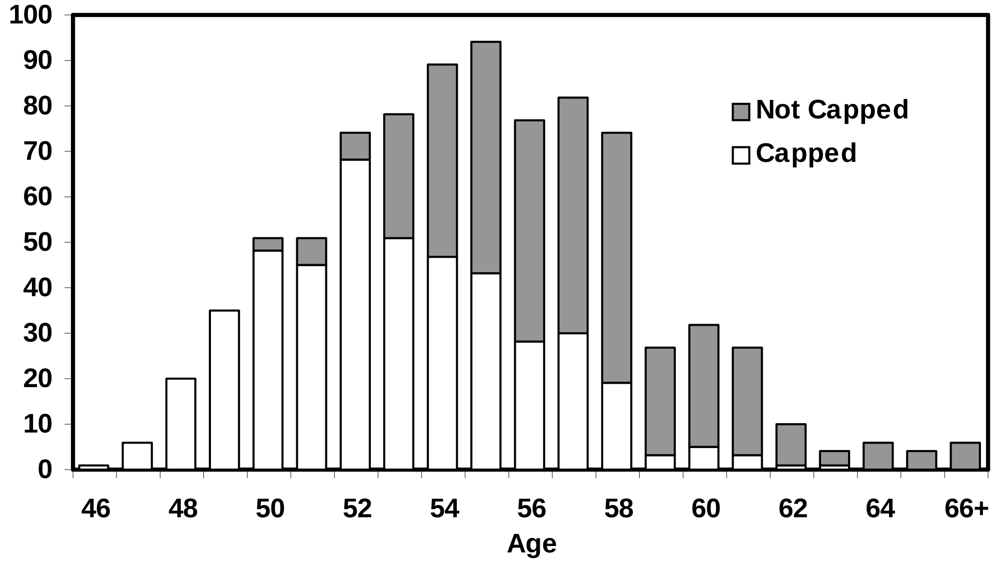
Figure 4

Active LEOFF 1 Members by Category, Employer, and Benefit Cap Status

	Not Capped	Capped	Total
Police Officers	210	198	408
1st Class City	101	75	176
Other City	42	71	113
County	67	52	119
Fire Fighters	184	256	440
1st Class City	114	121	235
Other Agency	66	130	196
Port	4	5	9
TOTAL	394	454	848

Age: Since the benefit cap legislation was prospective from February 19, 1974, it would hold that members subject to the cap would generally be younger than those not subject to the cap. While not all members were hired at the same age, records show that higher percentages of older members are not subject to the benefit cap (see Figure 5).

Figure 5
Active LEOFF 1 Members by Age and Benefit Cap Status



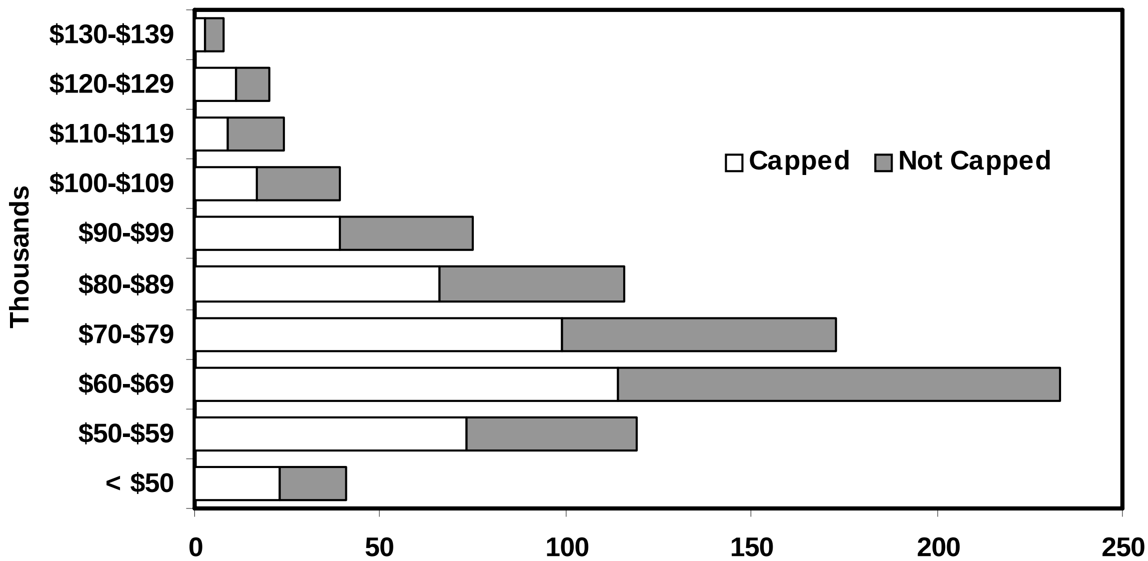
Service: In general, those members with over 30 years of service would not be subject to the benefit cap, while those with less than 30 years of service would. There are instances, however, of those who may have become members prior to February 19, 1974, but have had breaks in service. As a result, there are several members with relatively short periods of service who are not subject to the benefit cap (see Figure 6, next page).

Figure 6
Active LEOFF 1 Members by Service and Benefit Cap Status

Years of Service	Not Capped	Capped	Total
5-9	0	2	2
10-14	1	0	1
15-19	0	4	4
20-24	3	14	17
25-29	41	372	413
30-34	286	62	348
35 and over	63	0	63
Total	394	454	848

Salary: It could easily be assumed that those who are not subject to the benefit cap would have higher salaries than those who are subject to the cap. After all, they typically have longer periods of service that could translate into higher salaries. However, this does not appear to be the case. The salaries of those who are subject to the cap are not appreciably different from those who are not subject to the cap (see Figure 7 next page). For instance, among the 166 members earning $90,000 or more, 87 were not subject to the cap and 79 were. And of the 28 members earning $120,000 or more, 14 were not subject to the cap and 14 were. This is likely due to the steep salary/promotion schedule typical among police and fire organizations.

Figure 7
Active LEOFF 1 Members by Salary and Benefit Cap Status



As these characteristics show, the only significant variable having a bearing on whether a member's benefit is capped or not is their length of service. Those with more than 30 years of service, as of 2004, are sure to have a benefit that is not capped. Those with less than 30 years of service are likely to have a benefit that is capped (save for those who gained membership before February 19, 1974, and had a significant break in service.)

History

Two bills were introduced during the 2004 legislative session related to the 60 percent cap in LEOFF 1. HB 2416 proposed raising the limit to 70 percent of FAS and HB 2914 proposed eliminating the cap entirely; both bills received a hearing, but neither moved from committee.

Companion bills HB 1873 and SB 5901 were introduced in the 2005 legislative session that proposed rescinding the LEOFF 1 60 percent cap. Neither received a hearing.

Policy Considerations

Among the general policies found in the funding chapter (RCW 41.45) is the following: "Fund, to the extent feasible, benefit increases for all plan members over the working lives of those members so that the cost of those benefits are paid by the taxpayers who receive the benefit of those members' service." As of the 2004 valuation, the average remaining active member is already retirement eligible. For a plan that isn't fully funded, there would be scant time for members and employers to contribute to a benefit increase. Because LEOFF 1 is in surplus status at this time, any benefit increase would draw on that surplus. The cost of this proposal would increase the likelihood that the plan would come out of full funding in the future. Also, if the plan does come out of full funding, the plan would be projected to resume funding earlier and at a higher rate.

Another policy issue to consider is the inconsistent treatment of members within the same plan. While the provisional differences in LEOFF 1 and LEOFF 2 are typical of closed and open plans, it is rare for such differences to be present within the same plan.

A serious policy concern would be leapfrogging. One of the common criticisms of the Plan 1 design is that members' benefits are maximized at 30 years of service (2% × 30 years of service = 60% of AFC). Were the cap to be raised or eliminated in the LEOFF 1 Plan, members of the PERS and TRS Plans 1 may request a similar benefit increase, which would have a much higher cost.

Policy Questions

To help the committee decide whether to move forward with this issue, members may want to deliberate via the following issues:

- Have the original goals and/or incentives changed?
- Is this benefit improvement in keeping with the policies acknowledging the need for earlier retirement among police officers and fire fighters?
- Is there an overarching need to reward or retain long-tenured LEOFF 1 members?
- Could or should this issue be addressed outside of the retirement system?
- Would this benefit be retroactive? Would currently retired members with more than 30 years of service have their benefits adjusted?
- Would this spur retirees to return to active LEOFF membership? There are currently 638 service retirees under the age of 60.

Possible Options

If the committee wants to move forward with this issue, there are a number of approaches it could take. Here is a short list of possible options and the fiscal impact of each:

1. Eliminate the Benefit Cap

This option was originally priced in the fiscal note for HB 2914 from the 2004 legislative session. More recent calculations were done based on the 2004 Actuarial Valuation. Removing the cap would increase liabilities in the plan by $22 million. Because the plan is currently in surplus funded status, this increase in liability would not raise contribution rates.

2. Raise the Benefit Cap to 70 percent

This option was originally priced in the fiscal note for HB 2416 from the 2004 legislative session. More recent calculations were done based on the 2004 Actuarial Valuation. Raising the cap from 60 percent to 70 percent would increase liabilities in the plan by $17 million. Because the plan is currently in surplus funded status, this increase in liability would not raise contribution rates.

3. Raise or Eliminate the Benefit Cap with an Age Qualification

This option would allow members to accrue a benefit greater than 60 percent of their FAS as long as they served until at least 60 years of age. The LEOFF 1 Plan currently allows an unreduced benefit at age 50 with five years of service. Increasing the retirement age to 60 in order to receive an increased benefit should result in a savings component to each of the above proposals. Eliminating the benefit cap with the age qualifier would increase plan liabilities by <u>$11 million</u>. Raising the cap from 60 percent to 70 percent with the age qualifier would increase plan liabilities by <u>$8.5 million</u>.

While an age qualifier would lower the liabilities related to these benefit proposals, it would probably also result in additional policy considerations. Age standards tend to result in "cliff" benefits –

significant differences in benefits with very small differences in ages; a member who was 59 with 36 years of service would be eligible for a lesser benefit than a member who was 60 with 33 years of service. Would such a member be eligible for proportionate benefits?

Note: If the above proposals were to raise the benefit cap, but with an accrual that was less than the current 2 percent per year, the increased liability and contributions would be proportionate to the proposed rate of accrual relative to 2 percent. For instance, an accrual rate of 1 percent per year beyond 30 years of service would result in an increased liability half that of a 2 percent per year accrual.

4. *Retain the Current Benefit Cap*

This option adds no liability to the plan.

Stakeholder Input

Correspondence from:

Kelly L. Fox, President, Washington State Council of Fire Fighters (see Attachment).

Philip A Talmadge, Talmadge Law Group PLLC (see Attachment).

Richard Warbrouck, Retired Fire Fighters of Washington (see Attachment).

Committee Actions

In June, the Executive Committee of the SCPP recommended that this issue be heard by the full committee.

The full committee heard the first presentation of this issue at the July hearing. Questions from committee members warranted an additional presentation.

Next Steps

The Executive Committee of the SCPP shall decide whether to forward a recommendation to the full committee.

Affiliated with: AFL-CIO
International Association of Fire Fighters
Washington State Labor Council

Washington State Council of Fire Fighters

July 18, 2005

Chair Fromhold, Vice-Chair Fraser, Committee members:

I want to thank you for your early interim consideration of the LEOFF 1 Service Cap issue. After reviewing the June 21, 2005, Executive Committee materials regarding this topic, I would like to provide the following input on the policy questions and possible options:

Policy Questions

➢ *Have the original goals and/or incentives changed?*

The LEOFF 1 system changes in 1974 were instituted to ensure the long term viability of the pension fund. LEOFF 1 is in surplus, and removal of the service credit cap will not increase the plan's future funding requirements.

➢ *Is this benefit improvement in keeping with the policies acknowledging the need for earlier retirement among police officers and fire fighters?*

Modifying the service credit cap for LEOFF 1 members does not limit the member's ability to retire upon reaching eligibility age (50) and service years (20).

➢ *Is there a need to reward or retain long-tenured LEOFF 1 members? If so, what about PERS 1 and TRS 1 members?*

Retention of leadership and institutional memory within the Public Safety sector are critically important. The inability to accrue service credits serves as a disincentive to continued service. Action by this committee and the Legislature in 2006 will assist local governments to retain senior public safety professionals.

➢ *Can this issue be addressed outside the retirement system?*

It is appropriate for this issue to be addressed within the retirement system, and the fully-funded status of LEOFF 1 (before and after modification of the service credit cap) provides a revenue source, and does not require the many distressed local governments to make additional contributions.

Kelly L. Fox, President • Greg B. Markley, Secretary-Treasurer
1069 Adams Street Southeast, Olympia, WA 98501 • 1-800-572-5762 • (360) 943-3030
Fax (360) 943-2333 • E-mail: wscff@wscff.org • Website: www.wscff.org

- *Retroactivity?*

There are approximately 500 active members who are impacted by the service credit cap enacted on February 19, 1974. With legislation during the 2006 session, only about two-thirds of those members would require retroactivity. Members who have continued their service without additional service credits should not be treated differently than those who are nearing 30 years of service.

Possible Options

If the committee wants to move forward with this issue, there are a number of approaches they could take. Here is a short list of possible options:

- *Eliminate the benefit cap.*
- *Raise the benefit cap to a fixed level (64%, 66%, 68%, 70%).*
- *Eliminate the benefit cap, with a 1% (1.25%, 1.5%) per year accrual after 30 years of service.*
- *Raise the benefit cap to a fixed level, with a 1% (1.25%, 1.5%) per year accrual after 30 years of service.*

The WSCFF seeks to remove the service credit cap for LEOFF 1 members hired on or after February 19, 1974, utilizing the same service credit calculation as those hired prior to February 19, 1974. We ask the SCPP to recommend HB 1873/SB 5901 to the 2006 Legislature for the policy reasons listed above. A reduction of the service credit accrual rate may be pertinent for a system that has a projected UAAL. LEOFF 1 is in surplus and is projected to stay fully funded after implementation of this legislation.

- *Retain the current benefit cap.*

Active LEOFF 1 fire fighters will be present to testify on this important issue. Please utilize this opportunity to ask any questions of these valuable public safety professionals. Should you have any questions for our organization, or need to reach any of the fire fighters who have testified, please contact Bud Sizemore, Legislative Liaison, at 253-951-5090 or me at 360-791-6201.

Sincerely,

Kelly Fox
opeiu23/afl-cio

TALMADGE LAW GROUP PLLC
18010 SOUTHCENTER PARKWAY
TUKWILA, WASHINGTON 98188
(206) 574-6661 (206) 575-1397 FAX

November 5, 2004

Senator Karen Fraser
Select Committee on Pension Policy
PO Box 40422
Olympia, WA 98504-0422

Re: LEOFF Plan 1 Benefit Cap

Dear Senator Fraser:

I am writing to you on behalf of the Retired Firefighters of Washington (RFFOW). RFFOW is aware that the Executive Committee of the Select Committee on Pension Policy has placed an item regarding a LEOFF Plan 1 Benefit Cap on its agenda for November 9, 2004. RFFOW opposes lifting the benefit cap for LEOFF Plan 1 retirees, particularly given the contribution holiday employers and members have enjoyed since June 30, 2000.

As the Committee knows, there have been a number of previous efforts to address the present 60% cap on service retirement benefit for LEOFF Plan 1 law enforcement officers and firefighters. HB 2416 (2004) proposed to increase that cap from 60% to 70%. HB 2914 (2004) proposed to delete the cap entirely. RFFOW believes various legislators will offer legislation to alter the cap in the 2005 session of the Legislature.

The most glaring flaw in such proposals is their significant impact on the funding of LEOFF Plan 1. The Committee has been briefed by the State Actuary's office on whether a surplus or deficit exists in LEOFF Plan 1. To some extent, this calculation depends on whether the value of the LEOFF Plan 1 assets are determined on the basis of market or actuarial value. As the briefing from the Office of State Actuary on May 12, 2004 indicated, as of September 30, 2002, there was a $278 million deficit in LEOFF Plan 1 funds if the funds are valued on the basis of their market value. If the funds are valued on the basis of their actuarial value, the Actuary concluded that there could be a surplus of as much as $757 million as of September 30, 2002. However, even under the rosier

If RFFOW can provide any additional information to the Committee regarding these matters, please do not hesitate to contact Richard C. Warbrouck or me.

Very truly yours,

Philip A. Talmadge

PAT:gab

cc: Richard C. Warbrouck
Executive Committee members
Matt Smith

RECEIVED
JUL 15 2005
Office of
The State Actuary

July 13, 2005

Representative Bill Fromhold
Chair, Select Committee on Pension Policy
239 JLOB
PO Box 40600
Olympia, WA 98504

Dear Representative Fromhold,

I want to congratulate you on your election as Chair of the Select Committee on Pension Policy. Your knowledge of the pension systems and your concern for the working men and women of the State of Washington is a real asset as you chair the interim meetings of the Select Committee.

I regret that I will not be able to attend the committee meeting scheduled for July 19, 2005 and would like to again address by letter Item Number (4) of the meeting agenda "LEOFF 1 Benefit CAP."

The Directors of the Retired Firefighters of Washington at a special meeting on July 8, 2005 discussed this proposal and once again are unanimously opposed.

As you are aware there have been previous efforts to change this 60% CAP on LEOFF 1 service pensions. HB 2416 (2004) proposed to increase the CAP from 60% to 70% and HB 2914 (2004) proposed to delete the CAP entirely. HB 1873/SB5901 (2005) was introduced to remove the CAP however these bills were never scheduled for a Hearing by the Appropriations or Ways and Means committee.

Recently there has been some discussion in the area of retire/rehire to raise the 60% CAP of the PERS and TERS retirement systems. This as you remember was first discussed in addressing the teacher shortage and the problem of losing key state employees as they complete their 30 years of service.

I would like to point out that we don't have this problem in the fire service. We have no difficulty getting qualified applicants seeking entry- level police or fire positions. All of the promotions are made from within a particular agency or from the police and fire service in general, which create new entry-level positions.

If the CAP was increased to 70% for PERS and TERS there would be no inequity created as the members or employees and the employers would continue making contributions for any additional service credit. Due to the contribution holiday in the LEOFF 1 system any increase in the CAP would be a gift as the members would receive additional service credit without making a contribution and would create an additional liability to the LEOFF 1 system. Some of the proponents of removing the CAP want to go back to 1974 when there was no CAP on service retirements. If you use that logic then the contributions should also be reinstated as they were in 1974.

These members have benefited from the contribution holiday and have not made a pension contribution since 2000. They have saved 6% of salary and at the same time have earned 2% of service credit since that date. On a salary of $80,000 per year they have had a pay increase of $4,800 per year. That amount over the last five years would equal $24,000 plus compounding interest. If this amount was deposited in an employer matching deferred compensation program only offered after 1974, the retirement supplement would be significant .By removing the CAP this scenario would continue for another five or ten years reaching a value that would be in the hundreds of thousands of dollars. The members would also earn additional service credit during those years which would increase the amount of their individual pension benefit. Most of the people who would be affected by this change have been promoted or will be promoted to an administrative position just before retirement and will receive a retirement allowance based on the salary of that new administrative position.

Some of these members were in an entry level position as police patrolmen or firefighters in 2000 when the contributions were discontinued and have since been promoted to a higher position, some Battalion Chiefs, Assistant Chiefs and even to the position of Chief of the Department, thereby increasing their retirement benefit without having made a single pension contribution.

This is not what was intended when the retirement plan was developed. We feel that this is a selfish request on the part of those who will benefit and if approved would be abusive and a gift of government funds. We have learned to accept what is sometimes referred to as discrepancies as a result of the changes in the LEOFF II retirement plan.

We now have people working shoulder to shoulder in the same department, in the same position with different retirement benefits. Now the contribution holiday has increased the discrepancy and created another inequity. The members who are under LEOFF II while filling the same position are receiving less salary than those who are under the LEOFF 1 plan.

The LEOFF II members are making a pension contribution to a pension with less benefits. The LEOFF 1 members are no longer making a 6% contribution which relates to an increase in take home pay for these LEOFF 1 members. The take home salary for the LEOFF 1 members is about 12 to 14 percent higher that the take home salary for the LEOFF II members.

The removal of the 60% CAP would create another inequity and would encourage the LEOFF 1 members to work longer and would reduce the promotional opportunities for the LEOFF II members.

We have always favored retirement plans that would allow members to retire after 30 years particularly if they are in good health and would not want to encourage these members to work longer and become susceptilbe to a serious injury.

Thank you for your consideration and I would look forward to any future discussion regarding this issue.

Sincerely,

Richard C. Warbrouck

Retired Firefighters of Washington
15310 163rd Ct. SE
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425-226-3793
rffow@attbi.com

RECEIVED
NOV 3 - 2004
Office of
The State Actuary

Richard Warbrouck
President

Bob Burtch
Secretary

November 2, 2004

The Honorable Senator Karen Fraser
Chair, Select Committee on Pension Policy
PO Box 40422
Olympia, WA 98504-0422

The Honorable Representative Steve Conway
Vice Chair, Select Committee on Pension Policy
PO Box 40600
Olympia, WA 98504-0600

Mr. Matt Smith, State Actuary
Office of the State Actuary
PO Box 40814
Olympia, WA 98504-0914

Dear Senator Fraser, Representative Conway and Mr. Smith,

I want to thank you for your consideration of the LEOFF 1 issues that were on the Select Committee on Pension Policy October 18, 2004 meeting agenda.

We are opposed to the request to remove the 60% CAP on LEOFF 1 service pensions. We testified in opposition of HB 2914 and HB 2416 when these bills were being considered by the House Appropriation Committee during the 2004 Legislative Session. It would be inappropriate to remove the CAP unless the full contributions as delineated in the statute are restored. This would include retroactive contributions as well.

We see this as a selfish request from a small group who are now benefiting from the contribution holiday and earning additional service credit without making a contribution. These same members have received a 6% increase in their take home pay for the last four years while earning service credit of 2% per year or 8% pension. Six percent of an annual salary of $80,000 equals $4,800 per year or $19,200.00 for the four-year period. Eliminating the CAP would extend this existing inequity even further.

We feel it would be inappropriate for the Legislature to grant an additional benefit to a small group after the majority of the members in the plan have retired and especially when it's being reported by the Actuary that the Fund could have an un-funded liability in 2011.

We also feel that there are some existing inequities as addressed in the letter to the Committee from Senator Morton that should be corrected before creating new benefits.

We have not taken a position on the problem outlined by Senator Morton at this time but we are very sympathetic to the women in this situation, especially when this problem was resolved for a select small group of women in ESB 6380.

Sincerely,

R.C. Warbrouck

Richard C. Warbrouck

HOUSE BILL 1873

State of Washington 59th Legislature 2005 Regular Session

By Representatives Simpson, Ericks, Haler, P. Sullivan, Appleton, O'Brien, Ormsby, Morrell, Morris, Williams, Dunn, Chase and Campbell

Read first time 02/09/2005. Referred to Committee on Appropriations.

AN ACT Relating to removing the cap on retirement benefits of members of the law enforcement officers' and fire fighters' retirement system plan 1; and amending RCW 41.26.100.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.26.100 and 1991 c 343 s 16 are each amended to read as follows:

A member upon retirement for service shall receive a monthly retirement allowance computed according to his or her completed creditable service credit years of service as follows: Five years but under ten years, one-twelfth of one percent of his or her final average salary for each month of service; ten years but under twenty years, one-twelfth of one and one-half percent of his or her final average salary for each month of service; and twenty years and over one-twelfth of two percent of his or her final average salary for each month of service: PROVIDED, That the recipient of a retirement allowance who shall return to service as a law enforcement officer or fire fighter shall be considered to have terminated his or her retirement status and he or she shall immediately become a member of the retirement system with the status of membership he or she had as of the date of retirement. Retirement benefits shall be suspended during the period of his or her return to service and he or she shall make contributions and receive service credit. Such a member shall have the right to again retire at any time and his or her retirement allowance shall be recomputed, and paid, based upon additional service rendered and any change in final average salary((~~: PROVIDED FURTHER, That no retirement allowance paid pursuant to this section shall exceed sixty percent of final average salary, except as such allowance may be increased by virtue of RCW 41.26.240, as now or hereafter amended~~)).

--- END ---

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	2/16/05	SB 5901/HB 1873

SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 (LEOFF 1) by removing the provision that limits the retirement allowance for those who became members on or after February 19, 1974 to 60% of their final average salary.

Effective Date: 90 days after session

CURRENT SITUATION:

Currently, the maximum retirement allowance for a member of LEOFF 1 who became a member on or after February 19, 1974 is 60% of their final average salary. Those who became members before February 19, 1974 have no such limit on their retirement allowance.

MEMBERS IMPACTED:

We estimate that 529 active members hired on or after 2/19/1974 out of the total 991 active members of this plan could be affected by this bill. Additional members could be affected if they returned to work and earn over 30 years of service.

Each year of additional service credit beyond 30 years would result in an increase of about $120 in monthly pension payments per person (based on a current annual salary of $71,924).

ASSUMPTIONS:

We assumed that half of the future disabled retirees with at least 34 years of service will elect the proposed service retirement benefit (68% of pay before-tax) in lieu of the 50% of pay tax-free disability benefit (maximum of 60% with 2 eligible dependents). We also assumed that this proposed benefit change would alter future service retirement behavior in the plan. We subtracted 0.01 from the retirement rates from age 50 to 54, and subtracted 0.02 from the rates from age 55 to 59. The impact of the disability and retirement assumption change is reflected in the cost of this proposal.

FISCAL IMPACT:

Description:

There is no immediate fiscal impact while the plan remains in a surplus or fully funded position. The current plan is projected to remain fully funded because the market value of assets exceeds the liabilities by $39 million (at 9/30/2003). This proposal would reduce the surplus, but as long as a surplus remains on a market value basis, we would not project the plan to emerge from full funding under current long-term assumptions. However, if the plan experiences short-term actuarial losses, the plan would be more likely to emerge from full funding as a result of the proposed benefit increase. Also, if the plan does come out of full funding, the plan would be projected to resume funding earlier and at a higher rate.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

Law Enforcement Officers' and Police and Fire Fighters Retirement System:

(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	$4,342	$23	$4,365
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	($462)	$23	($439)
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	($521)	$16	($505)

Increase in Contribution Rates: (Effective 9/1/2005)	
Employee	0.00%
Employer State	0.00%

Fiscal Budget Determinations:

There is no projected increase in funding expenditures.

State Actuary's Comments:

We have projected that the cost of this bill would draw down a portion of the plan's current surplus, but would not increase the plan's future funding requirements. This projection reflects the future recognition of prior asset gains and losses not yet fully recognized under the asset smoothing method and reflects the cost of this proposed plan change. The plan's actual funded status will vary depending on the plan's actual experience and could easily be different than projected over the short-term.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Law Enforcement Officers' and Fire Fighters' Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2005 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:
- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all Plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts that are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

H-3809.1

HOUSE BILL 2416

State of Washington 58th Legislature 2004 Regular Session

By Representatives Simpson, G., Delvin, Cooper and Chase

Read first time 01/14/2004. Referred to Committee on Appropriations.

AN ACT Relating to raising the sixty percent cap on retirement allowances from the law enforcement officers' and fire fighters' retirement system plan 1; and amending RCW 41.26.100.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.26.100 and 1991 c 343 s 16 are each amended to read as follows:

A member upon retirement for service shall receive a monthly retirement allowance computed according to his or her completed creditable service credit years of service as follows: Five years but under ten years, one-twelfth of one percent of his or her final average salary for each month of service; ten years but under twenty years, one-twelfth of one and one-half percent of his or her final average salary for each month of service; and twenty years and over one-twelfth of two percent of his or her final average salary for each month of service: PROVIDED, That the recipient of a retirement allowance who shall return to service as a law enforcement officer or fire fighter shall be considered to have terminated his or her retirement status and he or she shall immediately become a member of the retirement system with the status of membership he or she had as of the date of retirement. Retirement benefits shall be suspended during the period of his or her return to service and he or she shall make contributions and receive service credit. Such a member shall have the right to again retire at any time and his or her retirement allowance shall be recomputed, and paid, based upon additional service rendered and any change in final average salary: PROVIDED FURTHER, That no retirement allowance paid pursuant to this section shall exceed ((~~sixty~~)) <u>seventy</u> percent of final average salary, except as such allowance may be increased by virtue of RCW 41.26.240, as now or hereafter amended.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**9/8/05**	**HB 2416 (2004)**

SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 (LEOFF 1) by increasing the maximum service retirement allowance of those who became members on or after February 19, 1974, to 70 percent of their final average salary.

Effective Date: 90 days after session

CURRENT SITUATION:

Currently, the maximum service retirement allowance for a member of LEOFF 1 who became a member on or after February 19, 1974, is 60 percent of their final average salary.

MEMBERS IMPACTED:

We estimate that 454 active members hired on or after February 19, 1974, out of the total 848 active members of this plan could be affected by this bill. Additional members could be affected if they return to work and earn over 30 years of service.

Each year of additional service credit beyond 30 years would result in an increase of about $125 in monthly pension payments per person (based on a current annual salary of $75,222). Since the new service cap would be 35 years, this could result in a benefit increase of up to $625 per month for an average member.

ASSUMPTIONS:

We assumed that members with at least 30 years of service, who may be eligible for a disability retirement, will elect the proposed service retirement benefit with a 70 percent cap in lieu of the 50 percent of pay tax-free disability benefit. The cost of this proposal was based on the change in the liability after this disability assumption change. We assumed that this proposed benefit change would alter future retirement behavior in the plan. We subtracted 0.01 from the retirement rates from age 50 to 54 and subtracted 0.02 from the rates from age 55 to 59. The impact of the retirement assumption change is reflected in the cost.

FISCAL IMPACT:

Description:

There is no immediate fiscal impact while the plan remains in a surplus, or fully funded, position. The current plan is expected to remain fully funded because the market value of assets exceed the liabilities by $365 million. This proposal would reduce the surplus, but as long as there is still a surplus on a market value basis, we would not expect the plan to come out of full funding. However, if there is some adverse experience due to the assumptions not being realized, the plan would be more likely to come out of full funding as a result of the proposed benefit increase. Also, if the plan does come out of full funding, the plan would be projected to resume funding earlier and at a higher rate.

Actuarial Determinations:

Although the bill will increase the present value of benefits payable under the system (for existing members impacted by this bill) as shown below, it will not impact the fully funded status. Therefore, there will be no fiscal impact:

	System: LEOFF 1		
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to All Current Members)	$4,330	$17	$4,347
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	$(336)	$17	$(319)
Unfunded Liability (PBO) (The Value of the Total Commitment to All Current Members Attributable to Past Service)	$(385)	$12	$(373)
Increase in Contribution Rates: (Effective 9/1/2006)			
Employee	0.00%		
Employer State	0.00%		

Fiscal Budget Determinations:

There is no projected increase in funding expenditures.

State Actuary's Comments:

We have projected that this bill would use up part of the plan's surplus, but that it would not increase the plan's future funding requirements. This projection reflects the future recognition of prior asset gains and losses and the impact of this proposed plan change. The plan's actual funded status will vary depending on the plan's actual experience and could easily be different than projected over the short-term.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets, and assumptions as those used in preparing the September 30, 2003, actuarial valuation report of the Law Enforcement Officers' and Firefighters' Retirement System. Fiscal Budget results were based on preliminary 2004 data.

2. As with the costs developed in the actuarial valuation, the emerging costs of the system will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill that were not used or disclosed in the actuarial valuation report include the following:

Reduced Retirement Rates

Age	50	51	52	53	54	55	56	57	58	59
Retirement Rate*	0.08	0.06	0.07	0.07	0.09	0.14	0.14	0.14	0.21	0.21

*Male and female

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This draft fiscal note is intended for use only during the 2006 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial accrued liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts that are expected to be paid in the future, taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.